THE POTENTIAL FOR AN ENTERPRISE FUND FOR AFRICA

RING

BEFORE THE

SUBCOMMITTEES ON
ECONOMIC POLICY, TRADE, AND ENVIRONMENT

AND

AFRICA

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

OCTOBER 19, 1993

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THE POTENTIAL FOR AN ENTERPRISE FUND FOR AFRICA

TUESDAY, OCTOBER 19, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT, AND SUBCOMMITTEE ON AFRICA,
Washington, DC.

The subcommittees met, pursuant to call, at 1:30 p.m. in room 2172, Rayburn House Office Building, Hon. Sam Gejdenson (chairman of the Subcommittee on Economic Policy, Trade and Environment) presiding.

Mr. GEJDENSON. The Subcommittee on Economic Policy, Trade and Environment and the Subcommittee on Africa meet today to investigate whether or not the Enterprise Fund for Africa would be a sound developmental tool for that continent. I am pleased to cochair this hearing with my distinguished colleague from Florida, Harry Johnston, who fully appreciates the difficulties of private sector development in Africa.

Why shouldn't Congress create an Enterprise Fund for Africa? Enterprise funds now exist in Poland, Hungary, Bulgaria, the Czech Republic, the Baltics and Russia. In addition, the State Department and the Agency for International Development are now considering establishing a fund in Romania, Albania, and Slovenia. While there may be legitimate concerns as to why the Congress and the administration would not want to create a fund for Africa, I can no longer accept the rationale that was presented to me, in the past, which was that Africa is somehow not ready for a fund.

If Albania and Russia are ready, it would appear to me that Africa is at minimum worthy of a discussion on this issue. I don't want to see Africa get the short end of the stick as has so often been the case in the past.

I know from experience with other private sector programs that what works well for one country may not translate well into another culture or economy. I have some concerns about creating additional Enterprise Funds. I hope that our witness today will be forthcoming as to what lessons have been learned or what mistakes have been made in the management or structure of existing Enterprise Funds.

We also have to consider how we would pay for another Enterprise Fund. Foreign aid dollars are shrinking and Africa on a per capita basis is no exception to that trend.

I know that the administration will take this issue seriously as is evidenced by the high rank of today's public sector witnesses. I

look forward to not only the testimony of all of today's witnesses, but in exploring innovative options for the private sector development in Africa.

Mr. Chairman.

Mr. JOHNSTON. Thank you, Mr. Chairman. I am glad to share this opportunity with you and your subcommittee to explore the important objectives of economic development in Africa. The concept of the African Enterprise Fund has been under discussion for several years now as an approach to fostering economic growth and market economies in Africa.

Ideally, the Enterprise Fund would serve as a catalyst for the development of financial sectors, provide a source of credit and investment capital for entrepreneurs and assist in business education and training. As we strive to achieve sustainable development in Africa, we must look not only to the political stability, but also to meaningful economic growth.

I hope that this hearing will uncover creative means to that important end. We need to begin to seriously grapple with the negative investment climate in Africa. We must begin to create domestic investment opportunities in Africa and to help reduce capital flight from this continent. An African Enterprise Fund might be the way to address these development challenges.

But first, we must creatively examine and design an appropriately suitable mechanism for the unique business environment in Africa. There are 12 ongoing, as you have pointed out, and proposed funds in Eastern Europe, and the newly independent states that total $1.2 billion in funds. There must be a way to construct Enterprise Funds for Africa.

I am encouraged by the administration's appearance here today and appreciate your serious attention to the issue of Enterprise Funds for Africa.

I must take this opportunity to congratulate Dr. Carol Lancaster on her confirmation as Deputy Administrator at the Agency for International Development. You have appeared before my subcommittee as a private witness in the past, and I am eager to work with you in your new capacity as well. I look forward to follow-up discussions after today's hearing.

Mr. GEJDENSON. We have with us the Honorable Carol Lancaster, the Deputy Administrator for the Agency for International Development. And Hon. George Moose, Assistant Secretary of State for African Affairs Department of State. Along with him is the Deputy Secretary for European Affairs at State.

I would like to start for 10 minutes or so and then break and then we will continue again. We will start with Ms. Lancaster.

STATEMENT OF CAROL LANCASTER, DEPUTY ADMINISTRATOR, UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

Ms. LANCASTER. Thank you, Mr. Chairman. Thank you both for the opportunity to appear here again in another incarnation, as I have, as Congressman Johnston said, been here before. I am not sure my new role is entirely as comfortable as the old role.

If you permit me, I will submit my testimony for the record and make some comments drawn from that testimony on the topic

today, the issue of the creation of a Southern African Enterprise Fund.

I won't spend much time going over the Enterprise Funds that already exist in Eastern Europe and the one that is just being established in Russia and the others that are planned. I think we have one of the real experts here on it. But just to note, as I think you have, that these funds were created to meet a particular need in that part of the world, that need being the shortage of risk capital after the major economic and political changes that had taken place in Eastern Europe and Russia as well as stimulating the development of the financial sector.

We saw in these countries, when the change took place from a command economy to more market economies, very underdeveloped financial institutions. These funds were intended to help develop those institutions to provide technical assistance on financial services to attract U.S. capital to the region and as well as capital from other sources.

What I would like to do is speak for a brief moment about what we know about how the funds have performed, and then turn to the question at hand. These funds in Eastern Europe are still new. They were created, the earliest ones, in 1990. They have had, a number of them, quite high obligation rates. And my understanding is that we are looking at nearly 100 percent obligation rates in Poland and in Hungary, far less in several of the other countries.

A number of small businesses have been the beneficiaries of the equity and debt made available from these funds. I understand that 2,800 small businesses in Poland have benefited from these funds. But the longer term impact of these funds is still to be assessed. An evaluation of their performance is planned for this coming year.

We cannot provide at this point definitive conclusions about how well they have performed, but they do provide some very interesting examples of how to promote investment in small-and medium-sized enterprises.

Obviously there have been some issues and some problems associated with these funds involving the degree of U.S. Government oversight of the funds, limitations on salaries, constraints on the types of operations the funds have undertaken and the use of technical assistance. Some of these issues were worked out in the grant agreement for the newest fund for Russia, and so they are not insuperable problems in the creation of such a fund.

An Enterprise Fund for Southern Africa: I would like to make a couple of points in introducing this discussion. First of all, we have some venture capital funds already set up in sub-Saharan Africa. There is an Africa Growth Fund. This is a fund that is financed primarily from private sector subscriptions. I understand that it has obligated about half of its capital.

There are venture capital funds for Kenya, Tanzania and Ghana. My understanding here is that these funds are still in the process of attracting the private capital that would make them work.

The idea of a Southern Africa Enterprise Fund is somewhat different from privately financed venture capital funds in that an enterprise fund would be financed by a grant from the U.S. Government. The proposal that this subcommittee has raised is a fund

that would cover all, not only for initial administrative costs but also for its lending and technical assistance activities of sub-Saharan Africa.

I must give my own personal view here. I would be a little concerned about creating a fund to cover all of sub-Saharan Africa. There are some 40 countries and 450 million people and an enormous variety of economic situations and conditions in the region. At the same time, creating an Enterprise Fund of the kind we have seen in Eastern Europe for a single African country, depending on the country, might be unwarranted. We do have quite a number of very small markets in the region, and surely in most of Africa, an Enterprise Fund would be stronger if it had a more diversified risk base. That is to say, such a fund should include more than one country and a larger market.

What I am leading to is an idea that we are beginning to explore in USAID, together with our colleagues from the State Department. That is the creation of an Enterprise Fund for a group of African countries. And the area where we think it makes most sense to explore this idea is southern Africa.

Let me tell you why I think it makes most sense to look at this idea in the context of southern Africa. It is the region, I think, that is probably potentially the richest in Africa—certainly it is among the most well endowed with natural resources. And a number of countries in southern Africa have made good economic progress. Economic reforms are in progress throughout much of the region, and I think that these reforms may well be in the process of creating opportunities for private sector activities. If the reforms are sustained and expanded, particularly those involves trade liberalization and currency reforms create the promise of a regional market.

I don't think we are there yet, but I think as trade barriers are lowered, that we may be able to look forward to more progress toward a regional market. And there is certainly a lot of conversation among government officials and private sector entrepreneurs in the region about a common effort to cooperate regionally and to move toward more open trading system in the region.

The banking and financial sectors are weak in a number of these countries, and there is a shortage of investable capital. We know that. Private capital will be the key to growth throughout the region. There isn't enough foreign aid to stimulate or ensure growth in the region, nor should there be. We hear from our colleagues in the region how important it is for private capital to come into the region or to be mobilized in the region to promote growth. There are needs an enterprise fund could address.

Another element, it seems to me, that makes it timely to look at the possibility of an Enterprise Fund for Southern Africa is the impending election in South Africa. If the election goes forward, we all hope for a greater degree of political stability in that country. It creates the possibility for the South African Government to act as a full partner in the region. It also has attracted the attention and will attract, I think, even more of the attention of potential foreign investors who are already beginning to look at opportunities in South Africa.

An Enterprise Fund for Southern Africa might well address some of the problems I have mentioned and take advantage of some of the opportunities that are opening in the region.

Mr. GEJDENSON. I hate to interrupt you there, but we are going to leave for a little bit, to take two votes. It may be as long as 15 minutes before we return, but hopefully, less than 10.

The subcommittees stand in recess.

[Recess.]

Mr. GEJDENSON. Please proceed.

Ms. LANCASTER. I will talk a little faster to be able to finish before the next vote. I don't have much more to say.

I was saying when the vote came that an Enterprise Fund for Southern Africa could address a number of the problems and opportunities that we see in the region.

It could provide needed investment capital and technical assistance for entrepreneurs. It could stimulate investor interest in the entire region especially, we would hope, on the part of U.S. investors, providing information to those who are uninformed about opportunities and maybe a little bit of reassurance to investors who are perhaps unsure about the political future in some of these countries.

It could provide an incentive for countries in the region to continue to implement and consolidate their economic reforms because investment is not going to come to countries, no matter how many Enterprise Funds we set up, if the economic and political environments are not appropriate and supportive. It could encourage a constructive economic engagement by South Africa in the region.

A lot of us are watching to see what a new government South Africa would want to do in the region, and we are hoping that it would be involved and supportive of the aspirations of all the peoples in the region.

There are a few problems that we have to look at when considering Enterprise Funds. One of them is the sustainability of economic and political reforms in the region. We need to be sure that when we launch such a fund that the countries intended to benefit from the fund, would, in fact, be committed to maintaining reforms that would permit a profitable private sector in their country.

I would want to avoid the concentration, it seems to me, of fund resources in any single country or one or two countries. One might want to consider putting a cap on the proportion of lending that such a fund might do to any one country to make sure that all country members would benefit. Perhaps the biggest issue is how do we fund such a fund, if we intend to go forward with it?

We are facing, a I think everyone knows, horrendous budgetary problems, particularly in the 150 account, the foreign aid program. We have already seen a 22 percent reduction in some of these programs in 1994, and an even sharper reduction promised by OMB in 1995. So we would have to be very sober in our approach to the size and financing of such a fund, given the budget constraints we are faced.

Let me conclude by saying I really appreciate the opportunity to be able to exchange ideas about the possibility of an Enterprise Fund in Southern Africa. I think it is very interesting idea. We have to do a lot more work in exploring whether it makes sense;

whether we can go forward with it or not, but I think this hearing is a very helpful beginning in that direction.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Lancaster appears in the appendix.]

Mr. GEJDENSON. Thank you. Mr. Secretary.

STATEMENT OF HON. GEORGE MOOSE, ASSISTANT SECRETARY OF STATE FOR AFRICAN AFFAIRS, U.S. DEPARTMENT OF STATE; ACCOMPANIED BY RALPH JOHNSON, COORDINATOR FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE

Mr. MOOSE. Thank you. I too welcome this opportunity to appear before the subcommittees and to lend my experience and my voice to support for consideration of how we translate the experience of Eastern Europe and the former Soviet Union in Africa.

I would share very much with Dr. Lancaster the view that there are lessons that I think can be drawn from that experience and that there have been developments on the African continent which I think increasingly argue that we need to look at that experience and how it can be applied frankly in the African context.

I am not the expert here, and I am delighted to have Dr. Lancaster and Dr. Johnson who is very familiar with the experience of the Enterprise Funds in Eastern Europe and the former Soviet Union.

Let me perhaps touch on a few points. One, as Dr. Lancaster pointed out, we face a very sobering resource environment, one in which we have to weigh carefully how we use scarce resources. We are committed to ensuring that Africa indeed gets its fair share of those resources.

We are also committed to making sure that the resources that are made available are used effectively and efficiently. I think in many cases that may argue that we need to look even more seriously at the question of Enterprise Funds or related kinds of mechanisms in order to see to what extent we can leverage private sector resources by the judicious use of public sector funds.

As Dr. Lancaster indicated earlier, we firmly believe that private sector holds the key to Africa's long-term economic development. I think more of the experts who have looked at the long-term prospects for economic development realize, number one, that public sector resources are not going to be sufficient to meet Africa's needs, and more importantly, the real solution lies in development of the private sector.

The private sector is where most Africans are employed and the potential for job creation is particularly high in micro and small enterprises and the key aspect of our assistance is geared toward fostering an enabling environment in which such enterprises can prosper.

Let me simply say that over the years I think—and again I am not the expert here, Dr. Lancaster can comment on this more fully than—but a fair amount of what AID has been doing in Africa over the years has indeed been devoted to creating the right kind of enabling environment for the success of the private sector. It has been done through such things as our support for policy reform. It

has been done through such things, citing my own recent experience in Senegal, as major efforts in terms of banking reform, for the private sector, particularly small and micro enterprises, both in providing assistance directly to those enterprises to enable them to be successful and providing them the kind of credit that are otherwise unavailable in these segments of the business community.

Turning just very briefly to the Eastern European experience, as you know, the U.S. Government has learned much from his recent experience in setting up the Enterprise Funds in Eastern Europe. I am pleased that Mr. Johnson is here. He is the Coordinator for Assistance to Central and Eastern Europe. He is fully qualified to address any specific questions that you may have.

I think, in general, however, he would say that the experience with the Enterprise Funds has been largely successful. Funds clearly have furthered key U.S. foreign policy goals in the region for developing market economies and for fostering a strong private sector. Let me mention an experience, an African experience, which suggests that there is room in Africa for similar kinds of initiatives.

Our principal experience in Africa in supporting private enterprise, through equity funding, has been the Africa Growth Fund, who is capitalization has been supported through the overseas private investment corporation. The Africa Growth Fund differs from the enterprise funds in Eastern Europe in that the U.S. Government provides only guarantees for investments after private capital has been raised. The Africa Growth Fund is an innovative investment vehicle to raise capital for creating, expanding and rehabilitating business.

In sub-Saharan Africa, excluding South Africa. The fund is privately owned and has investment capital of $25 million. And equity capital totals $5 million in the form of partnership interests. These partnership interests are offered to private and institutional investors.

OPIC has guaranteed the debt through promissory notes issued to qualified American financial institutions. The Africa Growth Fund seeks to achieve long-term appreciation and return to capital by investing in equity securities in countries in sub-Saharan Africa. The companies are chosen on the basis of their sound financial condition or attractive growth potential.

The fund purchases securities of both new and established companies that plan to expand or modernize, and add significant capital to increase their competitiveness or intend to implement privatization of a previously state owned enterprise. The fund's investments must meet OPIC's criteria for being environmentally sound, protecting local workers's rights and U.S. employment. The fund's assets are invested in a broad spectrum of African industries such as agribusinesses, machinery and equipment, electronics, finance, international trading and mining and no more of 15 percent of the fund's assets may be invested in any one company.

Many of us look at the Africa Growth Fund as one potential model for similar kinds of initiatives felt I knowledge like many other worthwhile initiatives, the challenging African—in the challenging African economy, the growth fund initially experienced some resistance, but with over 50 percent of the fund's capital invested and an expectation to distribute profits to investors this

year, OPIC believes that the fund is successful and the fund has not experienced any losses on its investments and is exploring the possibility of raising additional private capital for a proposed African Growth Fund Two.

There are other mechanisms to promote economic growth in the private sector. The United States is a major contributor for example, to the tune of about 26 percent of subscriptions to the International Finance Corporation, a member of the World Bank Group. The IFC loans money to and buys equity in private enterprises in the developing world, including Africa. Its African operations tend to be concentrated in the minerals and energy sector. While the IFC has various successful investments in the region, it identified Africa as one of the sources of weakness in its portfolio.

I mention it simply to highlight something that Dr. Lancaster said earlier, namely that we do need to look at the conditions that exist in order to see to what extent these kinds of interests are applicable. That weakness is ascribed to the investment environment in sub-Saharan Africa which continues to be especially difficult. That is a quote from the IFC's report. The report further notes that economic and political factors in a number of sub-Saharan African countries continue to constrain expansion of IFC's investment program.

I think in conclusion I would say the following: Enterprise Fund said and growth funded have, we believe, many attractive features, not least. They allow us to leverage government funds with those of private investors in a manner that contributes to the development of the private sector and fosters economic growth in Africa. In my view, such initiatives may be particularly fruitful in countries that have made significant progress in implementing structural or economic reforms. As these reforms begin to take hold, new and investment opportunities will increase.

We support economic development across the entire African continent, but we see some regions as particularly promising. As Dr. Lancaster mentioned earlier in the post-apartheid South Africa, we have a unique opportunity to assist of the country in its political and economic transformation. This will could raise capital for small and medium sized businesses.

As you know, Commerce Secretary Ron Brown will be leading a trade investment mission to South Africa next month. One of the outcomes of that mission we hope will be a signing of a bilateral agreement with OPIC with South Africa opening the way for OPIC programs in South Africa.

In summary, AID, OPIC and other U.S. Government agencies are devoting considerable resources to private sector development in Africa as are other bilateral donors and multilateral institutions. Enterprise Fund and growths we believe could serve to complement those ongoing efforts but there are questions about economic feasibility and budget implications that need to be considered carefully.

I would again join Dr. Lancaster in welcoming the interest of the subcommittee in this issue and its—the assistance of this hearing in helping us reflect, I think, through some of the issues related to transforming the experience in Eastern Europe to Africa.

Thank you, Mr. Chairman.

Mr. GEJDENSON. Thank you.

[The prepared statement of Mr. Moose appears in the appendix.]

One of the things that strikes me as we use our brilliant economic model everywhere we travel in the world is that there may be times when variations on that model work better. If we look at what we have tried to do over the last dozen years, Taiwan, during its development period, would not have fit any of the economic models we would have tried to place on it.

They had large state operations in a number of industries and although they are currently privatizing many of these industries, that was not how Taiwan got to where it is today. Shipbuilding and other large transportation companies were started by the Taiwanese Government, sometimes in conjunction with private industry, but sometimes not. Are we going to spend a lot of energy trying to match these countries to our model of our economy—is that the goal here?

Ms. LANCASTER. I don't think we could match each one of these economies to our economy. We are dealing with countries whose markets are smaller, whose stage of development is much earlier, whose public sector is not perhaps as strong as our public sector as the public sector in Taiwan and Korea when they experienced their growth. But there is a considerable amount of consensus that if there is not an active vibrant private sector, in the end you are not going to have healthy growth.

Mr. GEJDENSON. In the early 1980's, especially in cases where we tried to do infrastructure projects, there was this panic that we hadn't quite turned them to the complete model in the private sector. Are you looking to go in and assist existing and/or emerging small private industries with capital?

Ms. LANCASTER. That is what we propose to look at.

Mr. GEJDENSON. There seems to be a large amount of money at OPIC.

Have you gone back to the Budget Director, Mr. Panetta, and taken a look at using some of the OPIC's resources and expertise for this activity?

Mr. MOOSE. I haven't talked to Mr. Panetta, but we have talked to Ruth Harkin and she is interested in this. Because of the Credit Reform Act, there is the condition that it does have to be underwritten—again I am not an expert, but I recall to the extent that OPIC is involved, that it must underwrite that to the tune of 2 percent of the exposure. But my understanding is that that is within the current constraints of OPIC's budget; that if we come up with the right structure, and the right formula that we could probably go ahead with that.

Ms. LANCASTER. Could I add something to that? We have to decide how much grant funds we put into this fund and how much we use OPIC guarantees, and what mix we use.

Mr. JOHNSON. I say in the case of Eastern Europe, the money has been all grant. The Enterprise Funds are funded with grant assistance.

Mr. GEJDENSON. Thank you. We are going to recess again until the vote and then return. Hopefully this will just be one vote.

[Recess.]

Mr. GEJDENSON. Does the gentleman from Maryland have any questions?

Mr. WYNN. Not at this time.

Mr. GEJDENSON. Maybe we could spend a little time addressing what is happening with the Enterprise Funds from Russia, Czechoslovakia, the Baltic countries, Bulgaria, Hungary and Poland and how you look at the development in a place like Albania, which seems to be maybe the most challenging in the status there.

Mr. JOHNSON. Mr. Chairman, thank you.

My name is Ralph Johnson and I am the Coordinator within the State Department for aid to central and Eastern Europe. With regard to the Russia fund, that fund is only now in the process of being set up. Mr. Gerald Corrigan has been identified as the board Chairman for that fund. It is still too early to assess how that fund is going to operate because they have not had the chance to commit any funds.

With respect to the other fund, there is something of a track record. The Polish fund, the largest of those, has $240 million in terms of overall ultimate size of the fund. They have not yet used all of that money, nor has it all been obligated but the larger part of it. They have both taken equity positions in small businesses. They have, with existing local banks, created a series of windows for small and medium-sized enterprise.

They have provided limited technical assistance to the businesses that they have either invested in or that they have loaned money to. So that they work with small businessmen in growing their businesses, helping them develop business plans, learn hem to operate in a private sector environment, so that the Polish fund has been, we think, very successful. And the Polish fund, in fact has begun to generate revenues of its known reflows from credits, its percentage of recovery is about 97 percent, which is extraordinarily good.

With respect to Albania, a number of interesting questions arise. We have not yet formally made the decision to go ahead with the Enterprise Fund. I would like to do that because the Albanian Government is strongly committed to economic and political reform and they are on target with their World Bank and IMF programs. The question is how we could create a fund that would operate in an environment that is less developed than elsewhere in the region and how we could create a fund that would be smaller without eating up the capital in operating costs.

One of the issues that arises with those funds that are the second size down—with the Polish fund, is $50 million, $65 million—these funds they feel need to attract additional outside capital in order to have the reasonable level of operating expenses.

Mr. GEJDENSON. Because the managers end up eating up so much of the cost?

Mr. JOHNSON. No, in part because we have imposed such a large amount of requirements on them. They have an office in Washington, D.C. and in Czechoslovakia; they have offices in Bratislava and Prague. If have you to have a number of people on the ground to manage the transactions and following up, you can't put the money out and forget about it.

Mr. GEJDENSON. Should the review process be more focused, so that all of these funds operated out of a more centralized accounting system eliminating the need for multiple networks to review each one? Clearly as we are starting to expand.

Mr. JOHNSON. You raise an excellent point. And one of the things that we are looking at in terms of talking about creating a fund in Albania is whether or not it might not be able to use the bookkeeping operations for example for one of the other larger funds. We need to have, I think, an identifiable board. Because the board—the American members of the board are named by the administration, and they select host country members. That is an important element so that the fund is seen not just as a foreign institution. So we need to have a board that is identified with the host country.

You also need to have people that know enough about these markets that they will make prudent transactions. In fact what has happened now in that other sources of capital, pension funds and others, are coming increasingly to our Enterprise Funds and saying we would like you to manage our money for us. So this local expertise is important, as is the commitment to democratic reform and economic reform.

Mr. GEJDENSON. I am not arguing against Albania, because I think it would have been terrific if you could go there. But why do you pick Albania over a democratic African country?

Mr. JOHNSON. In my case it is not a choice that I have. The funds that I have are SEED funds that are appropriated for my region. I would say one other thing with regard to small countries, we are also looking at a hybridized version. Rather than simply creating an Enterprise Fund, we might look at small enterprise activity that others, the European Community, have under way to see whether there is any way of joining forces and thereby also reducing the overhead costs and also making available the capital to a smaller enterprise.

Mr. GEJDENSON. The money that you received from SEED, came from the DOD budget?

Mr. JOHNSON. No, sir. That has been a separate appropriation each year. There have been other funds in the case of the former Soviet Union that have come from that budget, but in my case, I am directly responsible for Eastern Europe. That is a separate——

Mr. GEJDENSON. That is only the former Soviet Union that received DOD funds?

Mr. JOHNSON. Yes.

Mr. GEJDENSON. And your funds came from?

Mr. JOHNSON. A separate appropriation, the support for Eastern European democracy. This year it was $390 million.

Mr. GEJDENSON. But did that come from former DOD dollars being shifted?

Mr. JOHNSON. I don't think so, sir.

Ms. LANCASTER. No, this is a 150 account, foreign assistance money.

Mr. GEJDENSON. So, basically there is nobody in your shop at this point that is in charge of Africa?

Mr. JOHNSON. No, sir. We have our hands full quite frankly dealing with central and Eastern Europe.

Mr. GEJDENSON. Have any of you looked at the situation with the cost of running the bureaucracy for an Africa setup?

Ms. LANCASTER. You are asking about what the operating cost of such a fund would be? We haven't gotten that far in our examination of the idea of a southern Africa enterprise fund. Other outstanding questions are: What size the fund would it be? How would we create the management and the governance of the fund? Would we model it on the board of directors being appointed in part by the White House and also including local detectors?

There are a whole host of questions that we haven't had a chance to explore.

Mr. GEJDENSON. Mr. Wynn.

Mr. WYNN. Thank you, Mr. Chairman. I apologize for being late. We did have some votes going on.

First of all, other than OPIC, what other source of funds have been considered? What other options do you see for funding such a program?

Ms. LANCASTER. There are several alternatives here and they are not mutually exclusive. One would be using foreign assistance moneys, or, if you like, a grant to a fund that would then disperse those moneys to loan to private entrepreneurs as has been done in the Eastern European funds.

The Africa Growth Fund that my colleague, Ambassador Moose described is another alternative. It is a fund where USAID provided some of the startup costs to finance the staff and then the staff went out and attracted the capital.

Mr. WYNN. Would you envision a fund parallel to that or adding on to the existing fund?

Ms. LANCASTER. What I think we are talking about here is an Enterprise Fund for Southern Africa. That would be different from the Africa Growth Fund. And at least preliminary thinking on this is that it would be financed from USAID moneys initially.

Mr. WYNN. Which brings me actually to the second question I had, which was would you advocate a single country fund, a regional fund or a continent wide fund?

Ms. LANCASTER. What we are talking about for exploration purposes would be a fund for the region, southern African region, roughly 11 countries. I would be a little fearful for having a fund for all of Africa because we are dealing with so many countries and so much diversity.

For one country, I think that one would have to look at that very carefully in the African context because so many of the countries are so small and markets are small, and one of the advantage of having a number of countries in a fund would be a certain amount of risk diversification.

Mr. WYNN. Other than the geographical proximity within the region, would you foresee any other criteria for our participation in such a fund, progress toward democracy, certain democratic institutions, any such considerations other than geographic proximity?

Ms. LANCASTER. We haven't gotten that far in our look at this at all. My preliminary thought is if you are going to create a fund for a region, the fund is going to have a measure of independence and the board of directors would have some say about lending.

You could certainly create any number of conditions of lending, but the more conditions you created, fewer loans you might be making.

Mr. WYNN. So more loans in one or two countries conceivably?

Ms. LANCASTER. You could do that as well.

Mr. WYNN. What about in terms of oversight, one of the problems that you have with these funds is that if there is a financial error or mismanagement it casts a bad light on the entire concept. I am concerned that we start out having this fund managed properly. What type of oversight would you view as appropriate for such a fund?

Ms. LANCASTER. We have had a few problems of that kind with the Eastern European funds. We would have to certainly explore that. But there is an opportunity to write in the grant proposal between the U.S. Government and the fund whatever restrictions we want on what kind of operations the fund might engage in, for example, caps on salaries, or for example, limitations on the use of technical assistance. These are some of the characteristics of the most recent Russia fund which was trying to deal with the problems that had cropped up in some of the Eastern European funds. One would also have to be careful in the selection of the board of directors. I think the issue is still on the table as to how one balances the independence of such funds in responding to the needs of the private sector with being accountable to the American public because these monies would come from the U.S. Government.

I think this is all to be worked out but I think one would have to be very careful on these issues.

Mr. WYNN. One final question. I understand that you are in a very preliminary stage. What do you see as the next step in the process. How do we move from this hearing to a more action oriented agenda?

Ms. LANCASTER. We would like to have our staff at USAID take a very close look at this proposal, both the pros and the cons as it would apply to southern Africa. We need to do that kind of exploration. We need to do it together with our colleagues in the State Department, and then decide whether this would, in fact, make sense, and fill a real need in the region and be able to function effectively. So I think that we need to do our home work within the government on this.

I hope we will be able to do a fair amount of that in the next month or so.

Mr. WYNN. Then you would come back to us with recommendations or thoughts and analysis?

Ms. LANCASTER. Absolutely.

Mr. WYNN. Within a month or two.

Ms. LANCASTER. Certainly. That would be one way of forcing the issues, too.

Ms. MCKINNEY [presiding]. I think our subcommittee chair has some additional questions.

Mr. GEJDENSON. How do you pick the boards for these funds?

Mr. JOHNSON. The boards are chosen in a process that involves the agencies of government, the executive branch, AID, State, Treasury, others who are involved in setting policy with regard to our economic relationship with the region. We come up with a list,

essentially, of candidates based on professional qualifications, typically people whom we have sought, including people in the financial world, people in manufacturing, some in agriculture, so that they would be able to cover the range of economic issues that the funds would face.

There is also a White House dimension in the sense that the White House Personnel Office has a role in the selection of these candidates because in the end the boards are designated by the President. They are not Presidential appointees, but they are designated by the President and it is important that they be seen to enjoy the support of the White House.

Mr. GEJDENSON. Has there been a lack of oversight on the workings of the boards in Europe?

Mr. JOHNSON. I don't think so. Dr. Lancaster has well outlined the tradeoff between giving the boards the independence which was sought because they were to operate flexibly and as entrepreneurs bringing their private sector skills to bear, with on the other hand a sense of accountability.

How do we make them accountable for public funds? They have—in fact they are subject to AID and GAO audits. The problems that we have had to date have not involved financial malfeasance, but errors in judgment, political errors in judgment.

We are rewriting, as Dr. Lancaster has said, the grant agreements between ourselves and the funds to make clearer to them what our expectations are in terms of their public policy obligations as well.

Mr. GEJDENSON. Thank you.

Ms. MCKINNEY. Mr. Moose, I was not able to decipher from your testimony if you are a proponent of this idea. Could you be a little clearer for me?

Mr. MOOSE. I am a proponent of this idea, but I do think that Dr. Lancaster has identified a number of issues which we need to address to ensure that in fact this is the most propitious instrument to be using to promote private sector development in Africa.

I agree with her that there is an opportunity right now in southern Africa in particular, to test the proposition of whether this is the right instrument. There are a number of things that are happening, we are conscious of the changes that are taking place in South Africa, but if you look at the region as a whole, we have a major reforming governments or well-established reformed governments in a number of countries throughout the region, Zimbabwe, Zambia, Namibia, but reforms takes—I would cite Malawi—and one of the things from the policy point of view that we would like to be able to do is demonstrate that there is a response to these reforms. That is to say that for those governments that are seriously undertaking major political and economic reform.

There is a kind of incentive and a kind of reward for it. So yes, there is an opportunity to see, in addition to the other kinds of activities that we have envisaged for the region, can add to these kinds of incentives for reform.

There is another reason that Dr. Lancaster alluded to in her original testimony. We are concerned about what the new South Africa will mean in relation to its relationships with its neighbors and it seems that in that situation it would be useful to have re-

gional mechanisms which draw the member states of the region into more cooperative relationships.

On the positive side, if that happens, I think there is a tremendous opportunity to create within the southern African region an economic entity which can generate significant development prospects for throughout the region. That is clearly a benefit for the region, and I think it is also a benefit for us and other trading nations because it does create new trading opportunities and possibilities.

So, yes I think the experience we have had elsewhere, and I want to emphasize again, we have been doing things to develop the private sector in Africa. It is not the Enterprise Fund, but there are variations on the same thing and we have done that in terms of supporting the development of small and medium enterprises in individual countries.

We talked about the OPIC Africa Growth Fund and they are interested in moving to either a new fund or an expansion of the existing fund. So there are things that are taking place. There is the IFC experience and we forgot to mention the African Development Bank, so we have contributed to that mechanism. But given the fact that over the last several years we have seen significant progress in Africa in terms of economic and political reform, it creates a new set of circumstances and in that new set of circumstances it is appropriate that we look at things like Enterprise Funds to respond to those needs.

Ms. McKinney. Additionally, according to the two criteria that you outlined in your testimony, how much do you think a fund for southern Africa would require?

Mr. Moose. There you are testing me to my limits because, number one, I am not really the economic expert here. And secondly, I do think that we—as Dr. Lancaster indicated—we need to do some home work here and bring together the expertise of our people in the region and then perhaps have an opportunity to come back to you and address that question.

Ms. McKinney. Thank you. Are there other questions?

Representative Payne.

Mr. Payne. Yes. Thank you very much.

Dr. Lancaster, you mentioned in your testimony, and I wasn't here, that there is the capital funding in the Tanzania Capital Fund. How are they funded? How have they been working and what sort of things have they gotten into?

Ms. Lancaster. These are funds where some of the operating costs have been financed at USAID, but the objective is to raise private capital that would then be invested through these funds. So these are not exactly like the model of the Enterprise Funds.

These funds are basically still in the process of raising their capital.

Mr. Payne. When you talk about Southern Africa Enterprise Funds, what do you include in southern Africa, more or less?

Ms. Lancaster. This, of course, is another question we can work out, but I was thinking notionally of the 11 countries that are in the region from Zambia down through South Africa, from Angola east to Mozambique, Malawi, Tanzania, Zimbabwe, the BLS coun-

tries, and Namibia. These are roughly the same countries which are members of SADC.

Mr. PAYNE. I think personally it would be a step in the right direction. I personally believe that if there can be true stabilization in Africa in general, if the sort of troubled spots could be smoothed over, the Mozambique and elections held in Liberia move along in their process and come to a resolution in Zaire and some of the other—Angola and some of the other places where there are problems that if we can get into a period of 4 or 5 years of sustainable, nonconflict—I will put it that way,—that I think there would be tremendous opportunities for these funds as we are restructuring—you know, as the governments are restructuring and an opportunity to move into some stable sustainable gradual growth.

I think that is even in the United States' interest, looking for a way to reduce the balance of trade deficit. I think the ideal place in my mind would be Africa for a possibility for tremendous growth in trade. I helped the administration to really do a study of the potential, because I think that Africa is the sleeping giant and could possibly start with a period of noncombat, could be possibly start a real economic revolution where this gradual improvement in the standard of living, thereby giving people the opportunity to consume more and get, I think, the products that the United States makes, heavy machinery, technology and so forth, that it would be an ideal marketplace.

So in addition, I look at it not so in much a benevolent sense, but I look at it in an economic sense that if we are not getting into Europe and we are not getting into Asia, we might as well go for Africa. So if you could get the word across, then I think it is in our economic interest, then maybe people in the United States would get interested.

Thank you.

Ms. MCKINNEY. Thank you, Congressman Payne.

Mr. Wynn, do have you any additional questions?

Ms. MCKINNEY. No, Madam Chair.

Well, thank you very much.

We will now have panel Nos. 2 and 3 come forward: Robert S. Browne, Esom Alintah, and Hubert S. Shaiyen.

Mr. Browne, we are ready to proceed.

STATEMENT OF ROBERT S. BROWNE, RESIDENT SCHOLAR, AFRICAN STUDIES PROGRAM, HOWARD UNIVERSITY

Mr. BROWNE. Thank you very much, Madam Chairman.

First I want to thank these two subcommittees for having this hearing. I am sorry Mr. Gejdenson isn't here because I wanted to compliment him on the strength of his opening statement which I felt was very encouraging.

I would like to start out with a personal statement of how I first became interested in this particular topic. In 1989 when the SEED legislation was in process, I used to be the Staff Director for the International Subcommittee of the House Banking Committee. This legislation had to be referred to the Banking Committee for joint jurisdiction and it came to my subcommittee for approval.

When I read about this—because at that time it was only the Polish and the Hungarian funds that were included in the legisla-

tion—I wrote on the side of it: Why not for Africa? So it is very gratifying for me to see that several years later we are at least talking about it.

You may think, why didn't I try to do it then? But the fact of the matter was the mood on the Hill and in the country at the time I didn't think was propitious. The Berlin Wall had just fallen and all the interest was on Eastern Europe and it didn't seem like a feasible time to do it, but I think that that time has long since passed.

I sat here listening to Carol Lancaster and she said some of the same things that I am going to say. I am afraid that some people may think that we got together on this. But I arrived at my ideas independently, but it is interesting that we have come to some of the same conclusions, though certainly not all.

Despite the scarcity of budgetary funds available for assisting in meeting the massive needs of the developing countries, I feel that the creation of a major venture capital fund for Africa is a priority. External capital is sine qua non for economic development to take place in Africa.

Public moneys are drying up, as one of the earlier speakers said, and Africa is already burdened by excessive debt so that equity money is absolutely what is called for. The Enterprise Fund model is suitable to the African conditions. It is a readily adaptable model. Obviously from what the administration speakers were saying, it will undergo some modification. It did for Russia and probably will for some of the others and would have to be for the African situation also.

But if the basic thrust of the model remains, I think it would be an excellent opportunity for Africa to have access to some funds, and it would capitalize both U.S. and American investors in a way that has not been possible here before.

In the opinion of person who carefully monitors such matters, the previous efforts all met with some success, have been inadequate to achieve sustainability and have otherwise been flawed. Among the deficiencies is that they have relied too heavily on expatriate consultants and administrators who cost a great deal but who are not connected to the societies in which they are operating.

The Enterprise Fund model is flexible enough to present a development of innovative, bicultural and multicultural funding arrangements and can be tailored to the local situation. I am not speaking of Africa in its entirety, but country by country it can be tailored because every country in Africa is not exactly the same.

The size of the Enterprise Funds offers hope that they can become self-sustaining, whereas the major U.S. venture capital, the Africa Growth Fund, is a very small fund. It was funded at $1.4 million, but it did have a $20 million call down on OPIC. As I understand it, it is struggling to survive now and may have to sell off some of its investments to keep its administrative costs covered.

It is true that much of Africa's economic backwardness is due to its own policies. Africa has overutilized its public and underutilized its private sectors.

One of the principal reasons this has been the case is the relative scarcity of investment capital within African's hands. There is an understandable reluctance on the part of Africans to allow non-Af-

rican capital to gain too strong a hold over the local economies. After all, that is certainly contrary to what the last 25 years have been all about.

African-owned investment capital is scarce, but it is by no means nonexistent. Two release its power, however, it has to attract foreign investors. A number of changes are required. Some of them are in place now. African governments must drastically reduce their bureaucratic requirements and ensure that business regulations are clearly articulated. Grand and petty corruption must resisted exposed and punished.

What is currently termed a favorable investment climate must be created. But beyond this, a viable market size needs to be offered to potential investors which means that the narrow political boundaries bound by the Berlin Conference of 1872 must not be treated as walls through which capital, labor and products can pass only with difficulty.

In some places, diverse efforts have been made to abolish these intra-African models. The PTA, Preferential Trade Authority, has issued African travelers checks so that Africans traveling in those member countries can use these travelers checks and don't have to exchange moneys. That is a giant step forward. That is regional integration. African leadership claims to be very committed to this now.

The Enterprise Fund I feel is particularly well suited for encouraging and complementing the liberalizing steps being taken by the Africans. A well-funded entity which is jointly administered by carefully chosen Africans and Americans and which has the functional flexibility which the Enterprise Fund format offers to substantial—it has the potential to both leverage governments to continue the creation of more inviting investment climates and to leverage indigenous capital by offering a strong foreign partnership on mutually acceptable terms.

There are, of course, problems in transferring the Enterprise Fund model from Eastern Europe to Africa, particularly as it relates to the matter of size. Funded as the Congress' initial response to the economic and political liberalization of the Eastern Europe, the Polish and Hungarian Enterprise Funds were launched with the generosity difficult to duplicate for Africa.

The Polish Enterprise Fund was authorized at $240 million for a country of slightly less than 40 million people. Sub-Saharan Africa with roughly 10 times the population of Poland is not likely to be granted 10 times the amount authorized for Poland, $2.4 billion.

Africa should be counted fortunate if it received the same amount than Poland received. I am not saying that I like that. I am just saying what the reality seems to be in this country at this moment. Africa is an extremely heterogeneous continent.

It is my feeling that a single Enterprise Fund covering the entire continent would be unwieldy and expensive to administer effectively. On the other hand, the Eastern European model of an Enterprise Fund for each country is equally unsuitable to the African situation because Africa has so many countries that are so tiny that they would not viably be able to support such a fund.

The preferable alternative is to create several Enterprise Funds, each covering a separate section of the continent. They would co-

operate with the several subregional entities no now active in sub-Saharan Africa. Notably the PTA, the Southern African Development Community, SADC, covering 10 or 11 states in South Africa, the Economic Community of West African States, and the Economic Community of Central African States, ECCAS in the Central African States.

Although the overall performance of these regional integration efforts has been mixed, some of them are making significant strides, particularly in the introduction of nontariff barriers to trade among themselves.

The PTA has made the most progress and they have established a clearinghouse. West Africa has also, but the PTA is dealing with much higher numbers. This enables the African countries to trade with one another without having to have hard currency.

Every 6 days, whatever the balance is, that is cleared by hard currency. But this idea of Africans having to trade with one another in hard currency has been one of the major obstacles of Africans having trade among themselves. Certainly the Africans thinking about how they are going to develop these days is moving toward development for intra-African trade.

It seems to me that having a subregional venture capital company working alongside would provide a great deal of synergistic benefit.

Now, a practical way in which this issue of geographical scope might be approached would be to authorize initially a single Enterprise Fund as a pilot project, but with a clear commitment to create other regional Enterprise Funds in a very reasonable time afterwards. It would be nice to do several at once, but with the political realities I would say that is not possible. But start with one project and with the commitment that the rest of Africa would be covered with other funds slightly thereafter.

But there is always the question of choice that rears its head and it becomes agonizing if you are going to choose one region, in which region would you be best advised to move ahead. While I think good cases can be made for all four of the regions that I mentions, eastern, western, central, and southern, in my opinion, southern Africa probably offers the most promising region for such a project, assuming that Africa has ended its destabilization properties because it seems to be the most politically stable.

Linguistically it is the most homogeneous. Only English and Portuguese are the official languages. It is probably the region with the most friendly investment climate. Perhaps most important, it is the region that has moved furthest in the question of regional integration.

To identify what I am talking about when I speak of southern Africa, that question was addressed to one of the earlier panelists, to say going through listing each country I would agree that the countries of SADC would be more or less the countries I have in mind, but I am not speaking of SADC or this fund being any way linked to SADC other than it would cover those 10 or 11 countries from Tanzania swinging down to Angola to the central western part of the continent.

I would also envision that adjacent nonmember states would be able to participate as part of a regional project. By that I mean

that, for example, Zaire is not in that group, but Zambia and Angola and Zaire if they wanted to do a project, a regional manufacturing operation or whatever it might be, that would be multicountry, it would be possibly to include adjacent countries that are not covered by this Enterprise Fund as long as they are adjacent to the countries that are. It would be regional.

I could see that some Enterprise Fund would co-invest and lend to local development banks in the area. The PTA has a government bank in Burundi, that is not in the region that I have in mind, but did lend to the countries in SADC because you understand that all, but one of the SADC countries is also a PTA country.

There is a tremendous overlap between those two regional organization. So if you were banking at the PTA bank in Burundi, it can lend to all of these countries but Botswana that I am talking about. It is regional and southern, but it is not just southern.

A few comments regarding items to be considered in constructing an Enterprise Fund for Southern Africa. Although it could be modeled after the Eastern European Enterprise Funds, we have probably had enough experience with those funds so that this model can be improved upon, as well as tailored to the specific characteristics of African country.

The obvious flaws in the early funds can be corrected as was mentioned by placing a cap for example on the salaries of executives. I understand that created quite a crisis in one of the Enterprise Funds where exorbitant salaries were paid. I don't believe in big salaries. I am one of the old generation where Franklin Roosevelt said that I have never met a man worth more than $25,000 a year.

If we adjusted this for inflation, I think it would be $150,000. It has nothing to do with executives making $2 million and $3 million. It may have nothing to do with their capabilities, but that is their salary.

Ms. McKinney. Mr. Browne, if you could begin to summarize.

Mr. Browne. Yes, I am on my last two paragraphs now.

I would see a board of directors of nine members, not a large board of directors. I would see it as an active board that would monitor these projects which would mean they would probably be expected to be paid a stipend.

Somebody earlier said that the Africans and Americans should be familiar with business. The Americans should be familiar with southern Africa. I think a substantial number of Americans should be African-Americans. Beyond paying the board members a stipend, I think this the fund should keep its operating expenses lean.

I think the headquarters would be placed in the region, rather than in the United States. I think the headquarters could be well placed in Harare and one might have a branch office in Angola and Mozambique or South Africa. The chairman of the board would be an American so you would not have lost the focus of where the ultimate responsibility lies. But I think that most of the board should be put out in the field and be done by Africans.

Well, I think that I have to cutoff, I thought I only had two paragraphs left, but I have five or six. I will cutoff there. You can hit me with some questions later on.

Thank you.

[The prepared statement of Mr. Browne appears in the appendix.]

Ms. McKinney. Thank you. Mr. Alintah.

STATEMENT OF ESOM ALINTAH, SECRETARY GENERAL, AFRICAN BUSINESS ROUND TABLE AND CHAIRMAN, FORTUNE GROUP

Mr. Alintah. Thank you.

My name is Esom Alintah. I serve as Secretary General of the African Business Round Table. I am also a founder of Fortune Group, a company that has its headquarters in Nigeria, but has investment in many regions of the continent.

I want to thank you for inviting us to testify in this project. My testimony will first identify the African Business Round Table as the only one of its type in the continent in that it is the only association of businessmen that encompasses the region, the PTA, the SADC, central Africa, and hopefully in the next 2 weeks, South Africa.

Our objectives are to promote the private sector in the continent. To do this, we have had to have interactions with the governments in the continent and also interactions with people abroad, governments abroad, the private sector abroad. Some of our conversations with our governments have not been very cordial, but I am happy to say that we have managed to achieve quite a lot in the few years that we have been talking with them, because they have come to realize that the private sector must be allowed the enabling environment to operate.

Our success has also been quite noticeable in the United States to the point where the U.S. Government has, through USAID, funded an office for us here in Washington. I want to place on the record our appreciation and thanks for that gesture.

The Enterprise Fund, we are talking about, frankly is an idea that is overdue. You will hear of all sorts of funds that have been set up for Africa. This is the first time in my memory in which constructively the African private sector is being consulted. Normally these things are set up between governments or government agencies and your government agencies. The private sector did not matter. Now we do, because the burden of running the economies of these countries has crippled our governments, and now they have come to the fore.

We try to invest not by making advertisements, but by showing clearly that there are people in Africa who are successes in their own right. Who have conducted business and done so successfully. Because nobody is going to invest in Africa unless the African invests in Africa. So we——

Ms. McKinney. We are being called for a vote, so I am going to ask you to please abbreviate your testimony, so that we can perhaps get both of you in before we have to leave.

Mr. Alintah. Thank you, Madam Chairman. Then I better go straight to the questions that you asked in the paper that you sent out to us. That is: Is there any need for the fund?

We say, yes, there is a great need for it, an urgent need for it because the African private sector needs the fund. One of the most lacking things in entrepreneurship in Africa is capital.

You asked should it be regional or should it be set up in one place or the other? The African Business Round Table representing the whole continent really should not bother where you set it up. If we could come all this way to ask you for money, we will walk anywhere in Africa to get it. But our recommendation is that there is a model.

You should set the headquarters in Africa and it should be one fund because the private sector development bank is today handling $200 million for the whole continent and the administrative costs are not that much.

Then you asked the question, should it be modeled after the Hungarian and the East Bloc countries ones? My answer is this: yes and no. Yes, in the money. Give us the money that you have given them. No, because we have been countries for a long time.

We have the infrastructure. We have the mentality. We have the entrepreneurs. We have the markets. So why do you want to compare us to them? They haven't even started.

We are not afraid of them, by the way, because we are told, "Oh, they are going to compete. They can't compete. In fact, the more money you give them, the more chances we have of selling our goods to them.

Then you asked are there any regulations that can be made—rather, you said, how much could it be? We would suggest $300 million over 3 years, plus—plus—plus I would say overhead advisedly because we find that your overhead, the overhead with which these funds operate—you give us the $300 million, then we can discuss the overhead separately, because every time I get into the Concorde, CIFC, World Bank, IMF people sitting next to me. I don't know whose money they are spending. So these people who administer this fund have to get the overhead from some place else. It can't be from this fund.

Finally I would say, since the time is so short, there are people who would genuinely oppose this fund. They might be such people. It can't be for the meanness—because they are mean. It isn't, it is just because they have not understood all the facts involved. It is our task to convince them.

Thank you very much.

[The prepared statement of Mr. Alintah appears in the appendix.]

Ms. McKinney. Thank you very much. Mr. Shaiyen.

STATEMENT OF HUBERT S. SHAIYEN, PRESIDENT, ACCESS AFRICA INTERNATIONAL, INC.

Mr. Shaiyen. I will delve right into my remarks.

Distinguished member of both subcommittees, thank you for this opportunity to share Access Africa's thoughts on the Enterprise Fund for Africa. I would like to submit my detailed remarks for the record.

Ms. McKinney. Without objection.

Mr. Shaiyen. Thank you.

The organization I represent, Access Africa International, is a Washington, D.C.-based nonprofit organization which evolved at the initiative of a cross-section of African and American profes-

sionals and entrepreneurs who saw the need for innovative and pragmatic solutions to Africa's economic development challenges.

Our objective is to promote private sector development in Africa through private business relations between the United States and Africa.

Distinguished members, sub-Saharan Africa is in the midst of unprecedented change; political, economic, and social. Politically, the last 2 years have seen a large number of countries in the region undergo transitions from military dictatorships or one party states into multiparty, democratically elected governments.

Economically, many African countries have undertaken far-reaching structural changes aimed at macroeconomic reform. They have increasingly liberalized their economies to give the private sector a prominent role as the engine of economic growth, and have sought to make their economies more conducive to foreign investment.

One crucial area in which the United States can have a significant impact is in the development of Africa's private sector. After decades of state control, the governments of many African countries have begun to withdraw from their involvement in a broad range of activities. A good number of countries have developed privatization programs with varying degrees of success and have encouraged local and foreign investors to participate in the divestment of state enterprises.

So why should the United States establish a U.S. Africa Enterprise Fund? The considerable progress made by several African countries in developing their private sectors offers the United States an opportunity to make an important and lasting contribution to the region's economic development.

By providing financial support to the private sector entities in these countries, the United States would be rewarding the reform efforts while also demonstrating its continued commitment to the region and lending credibility to their adjustment programs.

The establishment of an Enterprise Fund for Africa would expand U.S. international business by offering U.S. investors the opportunity to expand activities to cover an area hitherto largely unknown to them. Africa remains a relatively untapped market with huge returns on investments at levels unavailable in the United States.

I would reecho Congressman Payne's remarks about the opportunity that this presents.

I would now suggest some features we would like to see reflected in an African Enterprise Fund.

Unlike Ambassador Moose and Dr. Lancaster, we do not believe that the fund should be restricted to southern Africa. The fund should be designed to cover the whole sub-Saharan African region. Sub-Saharan African countries generally share common characteristics: undeveloped capital markets, widespread poverty, limited capacities and what have you.

Here is how we visualize the structure: The African Enterprise Fund would be established with the objective of contributing to the private sector development in Africa. The fund would be a private, tax-exempt corporation established by an act of Congress within an independent board of directors. Over the years the fund would ob-

tain funding in a manner of marked distinction from the Hungarian-Polish model. Unlike the Hungarian model whereas it wasn't until the third year of its operation, that was it began to seek private sector money. We air on the side of starting early in that we hope that Congress would set aside the necessary seed money for the Enterprise Fund.

The fund we propose would operate its activities through four main programs: the Portfolio program; the equity program; the Loan program and the Capacity Building program; again, I defer to my detailed remarks for a details explanation of that. We believe that the main principles that should guide the establishment and operation of the U.S.-Africa Enterprise Fund are simplicity, efficiency and effectiveness.

Bureaucratic procedures would be avoided to the extent possible with an emphasis being placed more on function and effectiveness than on form and presentation.

It is expected that a fund would begin to make equity investments and loans immediately and its impact would be felt in the short to medium term. The funds should be required to develop a strategic plan for encouraging joint ventures between U.S. businesses and African entrepreneurs. This is particularly important since the liberalization of the African economies now allow for 100 percent foreign investment in many sectors of the economy and joint venture companies could make advantage of viable privatization opportunities which are beginning to emerge.

In conclusion, it should be emphasized that promoting private sector development in Africa is not just an ideological necessity, but it is sound U.S. policy with mutual benefits for both the United States and Africa.

A growing African private sector providing a more diverse array of products and services and is a more formidable source for development.

For African governments who have gradually recognized the limitations of public sector intervention, the enhanced role of the private sector is a welcome relief. And the harsh rhetoric once heard in Africa against foreign investment is being i.e. placed by a determined competition for the capital, technology and employment which the United States can bring to the region.

Attitudes and policies are changing rapidly in Africa. There is a growing recognition that given the proper support that the enterprising energies of the African people have enormous potential. The U.S. Government, political U.S. investors, African governments, and African entrepreneurs themselves now have the opportunity to engage a powerful engine to help drive Africa's development forward. It is an opportunity which no one can afford to ignore.

Thank you very much.

[The prepared statement of Mr. Shaiyen appears in the appendix.]

Ms. McKinney. Thank you and I would like to applaud all three of you for wonderful presentations. I appreciate the opportunity of having listened to you and now we must go and cast a vote.

Thank you very much. The hearing stands adjourned.

[Whereupon, at 3:48 p.m., the subcommittee was adjourned.]

APPENDIX

TESTIMONY OF THE HONORABLE CAROL LANCASTER
DEPUTY ADMINISTRATOR
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
before the
HOUSE FOREIGN AFFAIRS COMMITTEE
SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT
and the
SUBCOMMITTEE ON AFRICA
OCTOBER 19, 1993

Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity to appear before you today to discuss the potential for creating an African Enterprise Fund. During the past few years, we have gained experience with these programs in Central and Eastern Europe. I welcome the opportunity to share our experiences with this Committee and explore their relevance to economic needs and conditions in Africa.

In my remarks, I will address each of the questions posed by the Subcommittee in its invitation to testify. I would like to begin my statement by providing a brief overview of the development rationale and uses of Enterprise Funds.

Purpose of Enterprise Funds

The Enterprise Funds, which sometimes are also referred to as venture capital funds, are designed to help develop indigenous private sectors. The "Funds" seek to spark private sector investment and enhance overall business development. They also demonstrate to other potential investors that private sector investment can be undertaken profitably in the respective country environment.

The basic reason for an Enterprise Fund is to provide risk capital in situations where the banking sector and financial markets are still evolving. The Enterprise Funds may be used to finance loans, grants, equity investments, feasibility studies, technical assistance, training, insurance, and guarantees.

In actual practice, the Funds have been used for equity and loan capital, and in more limited circumstances for technical assistance. The Funds are particularly suited to countries where potential for investment appears favorable, but there is limited capital and management skills to meet investment opportunities, and the financial system is weak or underdeveloped.

The Enterprise Funds offer a new way of delivering potentially self-sustaining direct assistance to businesses that may prove superior to providing one-time grants for business development.

The U.S. government has been able to attract U.S. private sector experts to serve as board members and managers of these new private, not-for-profit corporations. The Funds have not-for-profit status because of their quasi-governmental nature and because they are not intended have shareholders or distribute dividends. Nevertheless, they operate with the full intent to reach self-sufficiency; leverage outside private capital; and repay, to the U.S. government or selected host country institutions, the grant amounts plus any earnings from the grant after a ten to fifteen year period. In practice, our intent is that the final proceeds of a Fund will be granted to a successor host-country Enterprise Fund managed by fully-trained local Enterprise Fund staff.

The Enterprise Funds were created as a result of Public Law 101-179, "Support for Eastern European Democracy (SEED) Act of 1989." The SEED Act authorized the President to create the Polish American, and Hungarian American Enterprise Funds as nonprofit organizations to receive grants of $240 million and $60 million, respectively, for promoting the development of the Polish and Hungarian private sectors.

Subsequently, the "Enterprise Fund" concept was extended to the Czech and Slovak Republics and to Bulgaria in Eastern Europe, and most recently to Russia in the Newly Independent States (NIS).

For this new fiscal year, three new Funds are planned for Eastern Europe, and four new Funds are planned for the NIS.

- The seven ongoing and proposed European Funds have total planned obligations of $580 million, with each country grant to be disbursed over a four to five year period.

- The five ongoing and proposed NIS Funds have planned obligation levels of $720 -$770 million over the next four years.

Transformation to Market-Oriented Economies

The nations of Central and Eastern Europe (CEE) and the NIS have begun the transformation to democratic societies and market-oriented economies. In the past few years, these nations have implemented major structural reforms to replace central planning with market mechanisms. The success of stabilization policies and structural reforms depends on the development of efficient financial intermediaries and credit and capital markets.

Although the scope and pace of financial sector reforms differ significantly among these economies, they share certain characteristics:

- The legacy of central planning with severe distortions in the financial and productive sectors;

- The lack of adequate financial and skilled human resources to develop the financial sector;

- The inadequacy or lack of auditing systems to provide information on the creditworthiness of prospective borrowers; and

- The poor quality of bank portfolios and inadequate capitalization.

In the CEE and NIS economies, outside investors are cautious to enter these markets. The banking systems and capital markets either lack depth or are nonexistent. Consequently, the Enterprise Funds address one of the key problems facing these economies -- the dire shortage of capital and financial institutions to finance private sector transactions for the burgeoning number of new and privatized businesses.

By targeting small and medium-sized businesses, they are also assisting an important sector which the European Bank for Reconstruction and Development, the International Finance Corporation, and private investment banks do not normally serve. These institutions generally focus on loans and investments with a minimum level of $5 million or above.

Enterprise Funds and Market Growth

Our experience to date suggests that the Enterprise Funds have had a positive impact in at least three areas:

- First, they are catalysts for development of the financial sectors of their respective countries both for local financial institutions and for foreign investors. For example, the Polish small business loan program, and similar programs initiated in the Czech and Slovak Republics and in Hungary, use local banks which now are spawning competition with other local banks for the vibrant markets they have created in small business lending.

- Second, they are sources of credit and investment capital for entrepreneurs when alternate sources are either scarce or, practically speaking, unavailable. For instance, the Eastern European Funds are now equity partners in over 150 small and medium-sized businesses in a market where equity investments have never been considered.

- And third, they are a provider of business education and training, such as the business education video tape series developed under a technical assistance grant from the

Hungarian Fund. This video presentation is now being used in the curriculum of most secondary schools throughout Hungary.

Because the Enterprise Funds are still very new, we have not as yet conducted a detailed evaluation to quantify their impact. All Funds are establishing specific benchmarks of performance, and the European Funds will be evaluated this fiscal year.

Implementation Lessons

The lessons learned can be summarized as follows:

- First, although the Funds are private in nature, they must in fact be a public-private partnership if both the objectives of efficiency and development are to be met. There must be a meeting of the minds between the Fund management and the U.S. government as to the objectives of the Fund from day one; and there must be open and continual communication between the Fund and the U.S. government.

- Second, the Enterprise Fund concept is new and still being formulated, and as such has had growing pains. Some of the difficult areas include: paying excessively high salaries, using technical assistance monies unwisely, and the U.S government responding slowly and being unclear as to lines of authority.

  A.I.D., State, and Congress have discussed means of achieving an appropriate level of oversight and guidelines for the Funds on issues such as prior U.S. government approval of financial intermediaries of the Funds, a salary cap for the Funds' management and employees, limits on the use of technical assistance, and whether the Funds' involvement in joint ventures must include American partners. The results of these discussions are a totally restructured grant agreement which incorporates approval procedures and guidelines on all outstanding issues. The new grant format was used for the new Russia Fund agreement, and is the basis for ongoing negotiations with the existing European Funds.

- Third, the Funds still must rely on a favorable investment climate to succeed. The northern tier countries of Eastern Europe have proven favorable ground for the Funds, but we have yet to find out if Bulgaria and Russia, for example, will be similarly favorable environments. A favorable climate assumes support of the concept from the host government and policies supportive of private investment; a market large enough to support new business ventures assisted by the funds; and entrepreneurs willing to take the risks of establishing or expanding enterprises.

- Fourth, the Funds should not be used to crowd out legitimate private sector initiatives. If the local and international financial sector is fully capable of meeting the needs in a particular country, we should not use scarce U.S. funds to replace private investment.

The appropriate size and lifetime of a Fund, or the need for a Fund at all, must be determined with these as well as other factors in mind.

Potential for an African Enterprise Fund

It is recognized that if Africa is to achieve sustainable economic development and if the continent's nascent democracies are to flourish, it will need a vibrant private sector:

- To provide employment opportunities and improved social well-being for the majority of its citizens; and

- To permit and encourage the development of a strong civil society in which economic, as well as other interests, have both voice and votes.

A.I.D. considers support to private sector development as a critical component in assisting Africans to modernize their economies and to liberalize their political systems.

In FY 1993, A.I.D. designated approximately $200 million (about 25%) of the Development Fund for Africa for private sector programming. Priority areas have included reforming and strengthening the enabling environment for private sector development, privatizing inefficient parastatals, restructuring and reforming bankrupt financial systems and supporting the growth of business networks institutions that assist in the development of a well-functioning private sector.

Although the private sector in much of sub-Saharan Africa continues to struggle with weak institutions, economic progress still is becoming evident. A growing number of African nations (e.g. Ghana, Gambia, Tanzania, Guinea, Madagascar and Uganda) have reformed their economies to free-up markets. These changes have contributed to visible economic progress.

Financial sector reform is a key element in any economic reform initiative. In the right circumstances, venture capital funds or Enterprise Funds represent one way to address the severe financial sector deficiencies which plague most countries on the continent.

By creating domestic investment opportunities, they can help reduce capital flight by Africa's investors; indeed, they may even stimulate the return of flight capital. In addition,

investments financed by the Enterprise Funds may ~~bring with them~~ managerial know-how, new forms of technology, non-debt financial resources, and joint venture relationships that may help reduce the risk to U.S. investors.

Finally, and perhaps most importantly, Enterprise Fund programs can demonstrate to a burgeoning but cautious African private sector and to hopeful public sector policy reformers, as well, that resources are available to take advantage of the improved investment climate brought on by the policy reforms.

A.I.D. has put in place over the last two years, several pilot venture capital funds, such as the Ghana Venture Capital Fund, the Tanzania Venture Capital Fund and, in conjunction with the Overseas Private Investment Corporation, the Africa Growth Fund. These funds seek to mobilize long-term equity finance and have some resemblance to the Enterprise Funds in Eastern Europe. An evaluation of these venture capital funds is currently being undertaken. We will be happy to share the results of this evaluation with you once it is completed.

These funds focus on one country only. I am skeptical that an Enterprise Fund for all of sub-Saharan Africa will be feasible or effective. But I am very interested in exploring the possibility of establishing an Enterprise Fund for southern Africa.

Southern Africa Enterprise Fund

An Enterprise Fund could provide a significant boost to the development of the private sector in the southern African region.

- Southern Africa, encompassing eleven countries with a population of over 100 million, is one of the richest regions in the world in natural resource endowments. It also includes some of the most developed countries in Africa.

- Many countries in the region have begun to implement economic reforms opening up opportunities for profitable private investment. These reforms include a reduction in barriers to trade, perhaps signalling the beginning of the creation of a real regional market.

- Private investment - domestic and foreign - must be the key engine of growth in the region. Foreign aid, while important, will never be adequate to fill the regions capital needs, nor should it be.

- American investors may yet not be fully aware of emerging opportunities in the region. American investment in southern Africa has been very limited over the past decade.

- An Enterprise Fund could leverage investable funds; mobilize the flow of long-term, non-debt, risk-based capital to the region, including the repatriation of flight capital; and help deepen both the capital and money markets.

- An Enterprise Fund could also transfer much needed U.S. managerial know-how and new technology to the region.

There are, however, several reasons for being cautious about the creation of an Enterprise Fund for southern Africa.

- There continues to be skepticism by the domestic and international private sectors concerning the political will and ability of some of the region's governments to maintain these reform efforts.

- The sophistication of the economies in the region varies greatly. South Africa and Zimbabwe have well developed agricultural, industrial/manufacturing and service sectors, although their international competitiveness is questionable. The remainder of the countries have a much less diversified economic base. Any Enterprise Fund would have to be created in a way that would ensure that not all the enterprise's investment would be in South Africa and Zimbabwe.

- Another challenge in creating such a Fund is to ensure that not all of the Fund's investments go to well-off elites or the white minorities throughout the region, and not just in South Africa.

Conclusion

I have asked A.I.D.'s Africa Bureau to explore the potential benefits and drawbacks of establishing an Enterprise Fund for southern Africa as part of our efforts to rethink our development policies toward the region, in light of the impending political changes in southern Africa. A.I.D. wants to be ready to help the countries in the region to cooperate on creating a better future for their people.

Again, I thank you for the opportunity to testify before the Committee, and I welcome your comments and suggestions. Thank you.

TESTIMONY OF ASSISTANT SECRETARY OF STATE

GEORGE E. MOOSE

BEFORE THE HOUSE SUBCOMMITTEE ON ECONOMIC POLICY,

TRADE AND ENVIRONMENT

AND THE

SUBCOMMITTEE ON AFRICA

ON THE POTENTIAL FOR CREATING AN AFRICAN ENTERPRISE FUND

OCTOBER 19, 1993

2172 RAYBURN HOUSE OFFICE BUILDING

Mr. Chairman and Members of the Committee:

Thank you for inviting me to this hearing to share ideas on the possibility of creating an African Enterprise Fund. We welcome this opportunity to begin reflecting more deeply on what the U.S. can do to support private sector development on the African continent.

We are considering various options now. Although we have no specific proposals to put forward at this time, let me outline our view of the opportunities before us, the lessons learned from previous experiences in Eastern Europe and in Africa, and the questions that require further study.

Opportunities

First, let me underscore that this administration is committed to Africa and its development. We are optimistic that Africa, with its vast and largely untapped human and physical resources, will succeed in its efforts toward increased stability and economic growth.

In the near term, there will no doubt be obstacles. We are seeking to maintain assistance levels to Africa in a time of shrinking resources and are looking for ways to use available funds as efficiently and effectively as possible. I am personally committed to seeing that Africa gets its fair share of our aid resources, consistent with the very real needs of the continent, and that modalities of assistance that have been effective elsewhere are also given a chance of working in the African context.

Africa's private sector is crucial to its long term development. The private sector is where most Africans are employed, and the potential for job creation is particularly high in micro and small enterprises. A key aspect of our assistance to Africa is geared toward fostering an enabling environment in which such enterprises can prosper.

Eastern Europe

As you know, the U.S. Government learned much from its recent experience in setting up enterprise funds in Eastern Europe. Since I can claim no expertise on that part of the world, I am pleased to have sitting beside me Mr. Ralph Johnson, Coordinator for Assistance to Central and Eastern Europe. With the help of Mr. Johnson and his staff, we have been able to put together a synopsis of these efforts in Eastern Europe; and Mr. Johnson has kindly agreed to answer more detailed questions the Subcommittees might have.

The Enterprise Funds provide vital capital to the growing private sector in Eastern Europe, which lacks adequate banking and financial sectors. They tap into the experience of financial and business professionals and help develop banking and financial skills and institutions in the host country. The Funds' directors are named by the White House upon the recommendation of an interagency group that receives nominations from a wide range of persons and institutions in the United States and in the host country. In some cases, the Funds are the only source of debt or equity capital available to small and medium-sized firms.

Funds have already been established in Poland, Hungary, the Czech Republic, Slovakia and Bulgaria. In addition, the Administration has announced new Funds for the Baltics, Russia and Ukraine. Planned obligations for all these Funds will total $580 million.

The amount of capital allocated to each Fund was determined on the basis of two principal criteria: (1) the country's current stage in transition toward a market economy, and (2) the need for capital as reflected in the size of the economy and size of the population.

The Funds have a demonstrated record of success. The Polish-American Fund, for example, opened a small loan window in 13 Polish banks throughout the country and issued 2415 loans with a 97% repayment rate; invested over $100 million directly in small and medium enterprises in Poland; and successfully attracted over $100 million in outside (private and public) capital for a venture capital fund. Some problems did arise regarding the political judgment of the former management of the Hungarian American Enterprise Fund, but these were not attributable to the innovative nature of the Fund or financial decisions made by it. These problems have now been resolved.

In the Department's estimation, these Funds have contributed to fostering economic growth and market economies in three distinct ways: (1) They provided capital in some countries during the early transition from Communism when virtually no other sources of capital were available. (2) They helped create jobs in some cases or provided opportunities for labor market rationalization in inefficient sectors. (3) They provided an important demonstration effect that served as a model for private initiatives throughout the economies of host countries.

These funds clearly furthered the key U.S. foreign policy goals in the region of developing market economies and fostering a strong private sector.

Africa

In Africa, our principal experience in supporting private enterprise through equity funding has been the Africa Growth Fund, whose capitalization has been supported through the Overseas Private Investment Corporation (OPIC), an agency of the U.S. Government. The Africa Growth Fund differs from the Enterprise Funds in Eastern Europe in that the U.S. Government provides only guarantees for investments after private capital has been raised.

The Africa Growth Fund is an innovative investment vehicle designed to raise capital for creating, expanding and rehabilitating productive business enterprises in Sub-Saharan Africa (excluding South Africa). The Fund is a privately owned limited partnership having investment capital of $25 million. Equity capital totals $5 million in the form of limited partnership interests offered to American corporate and institutional investors. OPIC has committed to guarantee the Fund's debt capital of $20 million, created through promissory notes issued to qualifying private American financial institutions.

The Africa Growth Fund seeks to achieve long-term appreciation and a current return on its capital primarily by investing in equity securities of companies in Sub-Saharan Africa. Companies for investment are chosen on the basis of their sound financial condition and/or attractive growth potential, as well as their positive developmental benefits. The Fund purchases securities of both new and established companies that plan to expand or modernize, add significant capital to increase their competitiveness, or intend to implement privatization of a previously state-owned enterprise. Besides contributing to local development, the

Fund's investments must meet OPIC's criteria of being environmentally sound and of protecting local workers' rights and U.S. employment. All the Africa Growth Fund's investments involve a U.S. company as owner, manager or supplier.

Fund assets are invested in a broad spectrum of African industries, such as agribusiness, chemicals, construction, machinery and equipment, electronics, finance, international trading, and mining. No more than 15% of the Fund's total assets may be invested in any one company. Most of the Fund's investments are in medium- to large-scale enterprises, with typical commitments by the Fund ranging from $500,000 to $3,000,000.

Principal participants are: OPIC (guarantor and participant in the oversight of investment operations), Equator Bank (Fund manager and general manager), and Citicorp Investment Bank (financial advisor and agency for sale of securities). U.S. private lending institutions purchased the Fund's $20 million of OPIC-guaranteed notes, and U.S. business corporations provided $5 million through purchase of limited partnership units, at $1 million each.

Like many worthwhile initiatives in the challenging African economy, the Africa Growth Fund initially experienced resistance from U.S. investors; but with over 50% of the Fund's capital invested and an expectation to distribute profits to investors this year, OPIC believes that this Fund is successful. The Fund has not experienced any losses on its investments and it is exploring the possibility of raising additional private capital for an Africa Growth Fund II.

Other mechanisms to promote economic growth in the private sector exist. The U.S. is a major contributor (with 26% of subscriptions) to the International Finance Corporation (IFC), a member of the World Bank Group. The IFC loans money to, and buys equity in, private enterprises in the developing world, including Africa. Its African operations tend to be concentrated in the minerals and energy sectors. While the IFC has various successful investments in the region, it identified Africa as a source of portfolio weakness. A recent IFC report notes that "the investment environment in Sub-Saharan Africa continues to be especially difficult." It further notes that "economic and political factors in a number of Sub-Saharan African countries continue to constrain expansion of IFC's investment program."

In another multilateral effort, the African Development Bank established in 1991 the Private Sector Development Unit, a pilot program for equity investment and loans. The United States also participates in the Multilateral Investment Guarantee Agency (MIGA), which promotes private investment and provides investment guarantees to protect investors from non-commercial risk.

Conclusions

Enterprise Funds and Growth Funds have many attractive features. They allow us to leverage government funds with those of private investors in a manner that contributes to the development of the private sector and fosters economic growth in Africa. Such initiatives may be particularly fruitful in countries that have made significant progress in implementing structural economic reforms. As these reforms begin to take hold in a growing number of countries, new investment opportunities will increase.

We support economic development across the entire African continent, but we see some regions as particularly promising. In post-apartheid South Africa, for instance, we have a unique opportunity to assist the country in its political and economic

transformation. An expanded Africa Growth or Enterprise Fund could help raise capital for small and medium-sized enterprises among disadvantaged segments of the population that previouslyhad little access to capital. Commerce Secretary Ron Brown will be leading a trade and investment mission to South Africa next month. During this mission OPIC's President hopes to sign a bilateral agreement opening the way for OPIC programs in South Africa.

In summary, AID, OPIC and other U.S. Government agencies are devoting considerable resources to private sector development in Africa, as are other bilateral donors and multilateral institutions. Enterprise Funds and Growth Funds could serve to complement these ongoing efforts, but there are questions about economic feasibility and budget implications of that need to be considered carefully first. I compliment the Subcommittee on Economic Policy, Trade and Environment and the Subcommittee on Africa for initiating this discussion, and I welcome your comments and questions. Thank you.

TESTIMONY BEFORE THE HOUSE FOREIGN AFFAIRS COMMITTEE

on

CREATING AN AFRICAN ENTERPRISE FUND

October 19, 1993

by Robert S.Browne

CREATING AN AFRICAN ENTERPRISE FUND

I- The Need for an African Enterprise Fund

These two subcommittees are to be congratulated for holding a hearing on the need for an African-American Enterprise Fund. The Enterprise Fund concept was spawned in the 100th Congress as a part of the Support for East European Democracy (SEED) Act. It authorized the creation of two venture capital funds for eastern Europe, which would be generously funded, operate under joint American-East European direction, and be largely autonomous. Although they are still quite new, and are only now reaching a point where preliminary evaluations may be made of their work, our government has apparently been sufficiently pleased with them to proceed to create four more such Funds, and three more are currently under consideration covering such countries as Albania, Rumania and Slovenia.

Despite the scarcity of budgetary funds available for assisting in meeting the massive needs of the developing countries, the creation of a major venture capital fund for Africa, under U.S. sponsorship, deserves a top priority from U.S. policy makers. External capital is a sine qua non for economic development to take place in Africa. Public monies are, however, drying up, and Africa is already burdened by excessive debt so that equity money is absolutely essential. As in eastern Europe, the market approach to development

is being increasingly accepted in Africa, and the Enterprise Fund model is readily adaptable to the African situation. Such a Fund can catalyze both U.S. investors and African investors in a way that has not been possible heretofore.

In the opinion of persons who carefully monitor such matters, the previous efforts to attract U.S. investment capital into Africa, although not without some success, have generally been inadequate in size to achieve sustainability, as well as being otherwise flawed. They have relied too heavily on expatriate consultants and administrators, who cost a great deal but were unconnected to the societies in which they were operating. The flexibility of the Enterprise Fund model permits the development of innovative, bi-cultural and multi-cultural funding and administrative arrangements which can be tailored to the local situation. The size of the Enterprise Funds offers hope that they can become self-sustaining, whereas the major existing U.S.-funded venture capital fund in Africa, the Africa Growth Fund, was funded for only $1.4 million and is reportedly struggling to survive now that its tiny subsidy has run out.

Much, although certainly not all, of Africa's economic backwardness is due to its own policies. There is ample evidence that, as in Eastern Europe, Africa has overutilized its public and underutilized its private sectors. One of the principal reasons that this has been the case is the relative scarcity of private investment capital within African hands, together with a reluctance to allow non-African capital to gain too great a hold over the

local economies. After all, the basic drive of the anti-colonial struggle was precisely to wrest the state and the economy from foreign control and place it in African hands.

Although African-owned investment capital is scarce it is by no means non-existent. To release its power, however, a number of changes are required. African governments must drastically reduce their bureaucratic requirements and insure that their business regulations are clearly articulated and impartially administered. Both grand and petty corruption must be vigorously resisted, exposed and punished. What is currently termed a favorable "investment climate" must be created. Beyond this, a viable market-size needs to be offered to potential investors, which means that the narrow political boundaries drawn by the Berlin Conference of 1872 must not be treated as walls through which capital, labor and products can pass only with difficulty. In some places, vigorous efforts are being made to demolish these obstacles. The current terminology for this type of liberalization is "regional integration", and the Africans claim to be firmly committed to it.

The Enterprise Fund approach is particularly well suited for encouraging and complementing these liberalizing steps being taken by the Africans. The leveraging potential offered by a well-funded entity which is jointly administered by well-chosen Africans and Americans and which has the functional flexibility which the Enterprise Fund format offers, is substantial. It has the potential both to leverage governments to create more inviting "investment

climates" and to leverage indigenous capital to come forth by offering it a strong foreign partnership on mutually acceptable terms.

II- Particularities of an African Enterprise Fund

There are, of course, problems in transferring the Enterprise Fund model from eastern Europe to Africa, particularly as relates to the matter of size. Funded as the Congress' initial response to the economic and political liberalization of Eastern Europe, the Polish-American and the Hungarian-American Enterprise Funds were launched with a generosity which it may be difficult to duplicate for Africa. The Polish-America Enterprise Fund was authorized at $240 million, for a country of slightly less than 40 million people. Sub-Saharan Africa, with roughly ten times the population of Poland, is not likely to be granted ten times the amount authorized for Poland. Indeed, Africa should probably count itself fortunate if it were to be allocated the same amount as Poland received.

In any case, Africa is an extremely heterogeneous continent, consisting of more than 50 countries. A single Enterprise Fund covering the entire Continent would be unwieldy, and expensive to administer effectively. A preferable alternative would be to create several Enterprise Funds, each covering a sub-region of the Continent. Such an arrangement would be well placed to cooperate with the several sub-regional integration entities now active in

Sub-Saharan Africa (SSA), notably the Preferential Trade Area (PTA) in eastern and southern Africa; the Southern African Development Community (SADC), also in southern Africa; the Economic Community of West African States (ECOWAS) in western Africa; and the Economic Community of Central African States (ECCAS) in central Africa. Although their overall performance has been mixed, some of them are making significant strides in reducing non-tariff barriers to trade amongst themselves; to have a sub-regional venture capital entity working alongside them could produce profound synergistic benefits.

III- A Southern African-American Enterprise Fund

A practical way in which this issue of geographical scope might be approached would be to authorize a single Enterprise Fund as a pilot project, covering a designated sub-region. In subsequent years similar Enterprise Funds could be created to cover the other regions. In this writer's opinion, southern Africa probably offers the most promising region for such a pilot effort, because (with the destabilization policies of South Africa apparently at an end) it seems to be the most politically stable region of Africa, the most linguistically homogeneous (only English and Portugese as official languages), and probably the region with the most friendly "investment climate".

A Southern African-American Enterprise Fund would logically consist of the ten members of SADC plus post-apartheid South Africa, a grouping which also encompasses eight members of the PTA. In any case, the Fund's membership should be delineated by countries,

without reference to any one of the existing sub-regional integration entities. Adjacent non-member states would also be eligible for inclusion in multi-country investments, and the Fund could co-invest with or lend to local and regional development banks such as the PTA Development Bank (although located in Burundi, its target area uncludes most of southern Africa) and the South Africa Development Bank, as well as fund new local investment entities which could on-lend, especially for smaller ventures.

IV- Structuring the Southern African-American Enterprise Fund

Following are a few comments regarding items to be considered in structuring an Enterprise Fund for southern Africa. Although the Southern African-American Enterprise Fund can be modeled after the several eastern Europe Enterprise Funds, there has probably been enough experience with those funds so that the model can be improved upon, as well as tailored to the specific characteristics of the southern African region. Obvious flaws in the early Funds can be corrected, such as placing a cap on executive salaries and anticipating and precluding other possible abuses. A few principles would seem to be mandatory, however. The board of directors should be a small one, about nine members, should consist of both Americans (preferably African-Americans) and residents of southern Africa, and all of its members should have some familiarity with southern Africa as well as some entrepreneurial experience or other previous exposure to the business sector. All board members should be expected to devote substantial time to providing direction and

oversight to the Fund. To provide an incentive for this kind of serious attention to business, the board members should be paid a reasonable stipend.

In general, however, the Fund should be kept lean and its operating expenses strictly controlled. The decision as to whether the Fund's headquarters are best located in the U.S. or in southern Africa is a difficult one, although to place it outside the U.S. would be a major departure from the format of the eastern Europe Enterprise Funds. The principal reason for locating it in the U.S. is because private investment capital must be raised here. On the other hand, Africa is where most of the real work will be done and where most of the staff should be located. There would be real advantages in having top management as close as possible to the target area, where it could be in frequent contact with the physical rather than the paper aspects of the investments. Zimbabwe is a suitable location for the Fund headquarters, with field offices in South Africa, Mozambique and Angola. Because the activity of the U.S. office and of the African headquarters would be so different, it might be possible to have the two offices somehow share responsibility for the overall operation of the Fund. The Chairman of the Board should be an American, thus clearly retaining ultimate responsibility within the U.S.

The selection of southern Africa as the target region for an Enterprise Fund creates the risk that a single country, South Africa, may quickly become the principal beneficiary of the Fund's

resources. Past experience with regional programs of various sorts has repeatedly demonstrated that where one out of a group of cooperating countries enjoys a significant advantage in size, wealth or stage of development, there is a tendency for external capital to flow to that country. If not countered in some way, this sort of disparity can easily undermine the effort at group cooperation. To forestall such an eventuality, it is suggested that the Fund's charter contain a provision limiting the percentage of Fund resources directed toward a single country.

It is also important that the Fund structure its loans and investments so that the individuals promoting any venture are themselves financially at risk. Such an arrangement filters out serious entrepreneurs from frivolous promoters and assures that the venture will be managed with a full commitment of whatever skills and expertise the promoter can bring to it.

In conclusion I should like to reiterate my strong belief that the need for and the appropriateness of an Enterprise Fund for Africa is no less than it is for eastern Europe, and for many of the same reasons. Because of Africa's vastness, combined with its multiplicity of tiny countries, it seems reasonable to begin with a regional Fund, which can be replicated later in other parts of the Continent. As with the eastern Europe Funds, the African Fund should be capitalized at a sufficiently large sum to enable it to become self-sustaining over time.

Robert S. Browne 10/19/93

STATEMENT OF MR. ESOM ALINTAH

SECRETARY GENERAL
AFRICAN BUSINESS ROUND TABLE

AND

CHAIRMAN, FORTUNE GROUP
NIGERIA

ON

"ESTABLISHMENT OF AN ENTERPRISE FUND FOR AFRICA"

BEFORE THE

SUBCOMMITTEE ON AFRICA
AND THE
SUBCOMMITTEE ON ECONOMIC POLICY, TRADE, AND ENVIRONMENT

COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

OCTOBER 19, 1993

Mr. Chairman,

My name is Esom Alintah. I serve as Secretary General of the African Business Round Table, or ABR. I am also founder and Chairman of Fortune Group, a Nigerian company engaged in a range of business activities in Nigeria and other African countries.

On behalf of the African Business Round Table (ABR), I would like to thank you, your colleagues Mr. Roth and Mr. Burton the members of the Subcommittees, for inviting the ABR to present testimony on the important proposal to establish a U.S. Enterprise Fund for Africa, modeled along the lines of the recently-created Enterprise Funds for Poland and Hungary.

We commend you for your leadership in convening these hearings, which reflect a recognition of the important transition underway in Africa to democracy and free markets. More important, these hearings reflect a recognition that the United States has an important stake in ensuring the success of these trends in Africa.

In my testimony today, I would like to first introduce the African Business Round Table and briefly describe its objectives and programs. I would then like to summarize the conditions facing private entrepreneurs in Africa, conditions which point to the pressing need for an Enterprise Fund for Africa. Finally, I will offer general recommendations as to how we believe such a Fund should be structured to most effectively promote the African private sector.

THE AFRICAN BUSINESS ROUND TABLE (ABR)

The African Business Round Table is Africa's first continent-wide association of business leaders. The ABR membership encompasses Chief Executive Officers of companies from throughout north and sub-Saharan Africa; we are now poised to admit members from South Africa. The ABR members are involved in a wide range of sectors, from petrochemicals, food processing, mining, banking, construction, and aviation, to tourism, agriculture and transportation. Dr. Babacar Ndiaye, President of the African Development Bank (AfDB), is Founder and Chairman of the ABR.

The ABR was founded on the principle that open-market economies and a thriving private sector offer the surest means of breaking Africa's cycle of dependence and underdevelopment. We are convinced that the principles which led to our success in business -- efficiency, innovation, hard work, the encouragement of individual initiative and excellence -- are those that must provide the foundation for economic development in Africa.

We therefore united under the banner of the ABR in order to: 1) promote the African private sector so that it may serve as the engine of development in Africa 2) attract foreign investment to Africa, and 3) promote intra-African trade and investment.

Membership dues are the primary source of finance for ABR operations and activities. The ABR members thus exhibit a strong dedication to work for a better future for Africa through the substantial contribution of both their money and their time.

The ABR has instituted a wide array of programs to achieve its goals, including trade and investment missions abroad, investment promotion conferences in Africa, policy seminars and workshops, executive exchange programs, and information services for investors. We are working with African governments, both quietly and no-so-quietly, to urge the adoption of measures needed to improve the enabling environment for private enterprise.
As an African institution, the ABR is uniquely positioned to undertake this often sensitive task, and we have been quite successful in many countries in this role. A brochure outlining the objectives and programs of the ABR is attached to my testimony.

Because of the success that we have had in the United States and the potential we see for expanded trade and investment ties with U.S. business, as well as for collaboration with U.S.-based agencies, we are opening a North American office in Washington, D.C. We would like to take this opportunity to officially thank the U.S. government for the support it has provided to this new office through USAID.

Mr. Chairman,

It is the ABR's profound conviction that freedom and individual initiative in the economic arena are fundamental to the success of democracy in Africa. Greater accountability, transparency and popular participation in public decision-making are essential both to efficient and competitive markets and to democratic governance. We therefore see our mission as central to the task of building democracy in Africa.

Mr. Chairman,

We can speak from our firsthand experience about the local conditions within which the private sector must operate and about the needs of Africa's private entrepreneurs.

PRIVATE ENTERPRISE IN AFRICA

Africa is a vast continent. The environment for private enterprise, and the local private sector, vary widely between nations and localities. National economic policies, historical factors, natural resources, levels of human resource development, political stability and governance,

infrastructure, and climate -- in each country the interplay of these factors forms a unique national investment climate and local private sector.

Having said that, however, certain generalities can and must be made about the African private sector. First, a dramatic transition is underway throughout Africa. After enduring decades of one-party states and excessive governmental intervention in economic life, Africa has embarked firmly upon the path of democracy and free-market economies.

We have opted for participation and transparency, for openness and competition. Our people are demanding, and creating, a meaningful role in the systems which govern them. Democracy in Africa is proceeding in fits and starts -- we have had setbacks along with our victories. But recent events in Eastern Europe and the newly-independent states of the former Soviet Union offer ample evidence that this process is neither a simple nor an automatic one.
We have no doubt, however, that Africa's movement down the road towards democratic freedom is an irreversible one.

On the economic front, most African governments have now reached the inescapable conclusion that the private sector must serve as the 'engine of development' in Africa. They have recognized that economic development requires the ability to compete in global markets. At the same time they have realized that without a vigorous private sector, African countries cannot hope to achieve the economic diversification, efficiency and productivity that global competitiveness requires.

As a result, sweeping economic reforms have been adopted, designed to remove the state from productive sectors of the economy and provide an environment and supportive services within which the private sector can prosper. Red tape and administrative burdens are being reduced, the legal and regulatory framework simplified and modernized; overvalued exchange rates adjusted and protective trade regimes liberalized. Ambitious programs to privatize state-owned enterprises have been adopted. Market forces, rather than bureaucrats, are increasingly determining prices and the allocation of resources.

Measures designed to attract foreign investment are central to these reform programs. Foreign investors are being actively courted through a range of incentives, including tax breaks, liberalized investment codes which allow full repatriation of profits, and the establishment of export processing zones. To bolster foreign investor confidence, a growing number of investment insurance agreements such as Investment Promotion and Protection Agreements (IPPA)s and Overseas Private Investment Corporation (OPIC) agreements have been signed by African countries. Many have also become members of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank.

Mr. Chairman, political and economic changes are proceeding in a mutually reinforcing process which together are creating unprecedented opportunities for profitable business in Africa, a continent of untold -- and largely untapped -- agricultural, mineral, and human resources.

Private entrepreneurs thus face a dramatically improving business climate. Despite these laudable changes, however, major impediments remain to the establishment of free and open market economies in most African countries.

The commitment and capacity to implement reforms varies widely among African counties. Some countries have only recently fully embraced economic reforms and measures to encourage the private sector. It will take time to gain investor confidence and overcome a legacy of state controls, misguided policies, protection, and public ownership. In addition, market-oriented economic reforms are often painful and the payoffs not immediately apparent, making it politically difficult at times for African governments to stay the course of reform.

The most important structural impediments to private investment include: lack of capital, lack of technical expertise, and a dearth of adequate information. Investment codes need to be made even more competitive, legal systems further modernized and oriented towards private enterprise and private property rights. Intra-African transportation and communications systems must be made more efficient and cost effective. The privatization effort in particular is hampered by the absence of capital and securities markets and by a shortage of technical assistance to prepare enterprises for privatization.

CREATION OF AN ENTERPRISE FUND FOR AFRICA

Mr. Chairman,

This is the context within which we are considering the creation of an Enterprise Fund for Africa. We feel there is an urgent need for such a Fund, and in fact, before your subcommittees in March of 1992, the African Business Round Table called for the establishment of $500 million 'multilateral investment fund.' Our proposal was also based on the Enterprise Funds for Poland and Hungary, as well as on the Enterprise for the Americas Initiative.

We are therefore delighted to see that an Enterprise Fund for Africa is now under serious consideration. Such a Fund would help to address the impediments to private entrepreneurship and provide needed encouragement to governments to stay the course of reform at this critical point in Africa's transition to democracy and free markets.

The symbolic importance, to Africans, of the creation of this Fund for Africa cannot be overstated. A bold new initiative from the United States would provide a tangible demonstration that the U.S. is as commited to democratic and economic freedom in Africa as it is in other parts of the globe. It would confirm that the United States is ready to extend its hand in *partnership*, to help empower *Africans* to promote African development.

Mr. Chairman,

An Enterprise Fund for Africa, like those for Poland and Hungary, should promote the private sector through the provision of loans, grants, equity investments, feasibility studies, technical assistance, training, insurance, guarantees, and related measures.

We would propose an initial funding level of US $300 million, plus overhead costs, over a three-year period. We should emphasize, however, that the Fund should be designed to play a catalytic role in attracting other sources of funding to private sector projects in Africa. A key factor in determining the success of the Fund will lie in the extent to which it is able to mobilize both local and multilateral resources for a given project.

Mr. Chairman,

We have been asked to comment on the differences that would need to be taken into account in designing an Enterprise Fund for Africa. I would like to turn now to some of these.

Unlike the countries of Eastern Europe, entrepreneurial and democratic ethics have deep roots in African history and culture. What we are witnessing in Africa today is not a tentative embrace of alien concepts but the revival of a spirit that in recent decades was stifled by unfortunate government policies.

In addition, while the crumbling of the Berlin Wall marked the beginning of Eastern Europe's transition to democracy and free market economies, many African countries are in the very advanced stages of structural adjustment -- their reform programs having been adopted a decade ago.

The practical consequences of these differences are the existence in Africa of both a strong entrepreneurial base and a plethora of agencies -- multilateral, bilateral, pan-African, national, and local -- working to promote the private sector in Africa. There is indeed no lack of entrepreneurs in Africa, entrepreneurs with ideas, creativity, and ambition.

An Enterprise Fund for Africa would therefore have a rich base upon which to draw, the extensive expertise of these other agencies, as well as upon the advice and experience of *African entrepreneurs themselves*, in the design and administration of Fund programs. These resources were simply not available, or were at best limited, in the case of the Polish and Hungary Funds. We cannot afford to neglect them when structuring the Fund for Africa.

The International Finance Corporation (IFC), the Africa Growth Fund (AGF), the African Project Development Facility, SIFIDA Investment Company, as well as well as bilateral programs such as PROPARCO and the Commonwealth Development Corporation are among the agencies working in private sector promotion in Africa. As you are well aware, the United States government provides assistance to the private sector through USAID, OPIC, and other agencies.

An important new African instrument for the promotion of private enterprise is the Private Sector Development Unit at the African Development Bank. It was conceived and its creation assisted by African businesses themselves, through the African Business Round Table in our capacity as an advisory body to the African Development Bank. With an initial funding level of $200 million, the PSDU provides term loans and equity investments directly to private enterprise projects in Africa, without government guarantees. A brochure on the AfDB's program of support to private enterprise is attached to my testimony.

STRUCTURE AND PRIORITIES FOR AN ENTERPRISE FUND FOR AFRICA

The Fund should be structured to complement and reinforce the work of these other agencies, and to help fill the gaps that exist in support for private sector promotion in Africa. The demand for capital and other assistance cannot be met by existing programs.

Relative to loans, equity finance is scarce in Africa. The Fund should serve as an important provider of risk capital needed to start up enterprises and for the expansion, modernization, or diversification of established companies. Equity investment is also needed in African financial institutions, such as Development Finance Corporations, commercial banks, venture capital companies, leasing companies, and mutual funds, so that these institutions can more effectively assist the private sector in Africa. The capacity-building impact of an increase in capital has a significant multiplier effect, since it will strengthen these institutions ability to finance many private enterprises. A relatively small equity investment by the Fund could have both a sound developmental benefit and bring potentially high returns.

As in Eastern Europe, privatization of previously state-owned enterprises is a cornerstone of efforts to create market-based economies in Africa. The Fund should make assistance to privatization in Africa a top priority in its work, and develop creative new ways to assist the privatization effort in Africa. The soon-to-be established African Centre for Privatization, a capacity-building institution that will serve as an African centre of excellence for the development and implementation of privatization policies, will provide an ideal vehicle for the Fund's efforts in this regard. The Centre will draw primarily on African expertise, and will provide a mechanism for cross- fertilization of successful African privatization policies and projects, provide training, database services, research, and publications on privatization in Africa.

ASSISTING SMALL AND MEDIUM-SIZED INDUSTRIES

Mr. Chairman,

Small and medium-sized industries are a wellspring of entrepreneurial creativity and dynamism in Africa. Yet these industries are the most starved for capital and technical assistance.

Africa's small and medium-sized companies are least able to rely upon Africa's underdeveloped capital markets and weak banking systems to raise capital. And most programs that assist the private sector in Africa are not structured to assist this sector. For established agencies such as the PSDU and the IFC, the administrative costs of lending to and developing assistance packages for small projects are prohibitive. In addition, there are a multitude of viable projects. aimed at the local market, for example, that cannot meet the foreign currency requirements. export orientation. and commercial terms required by these agencies. They also lack the necessary technical expertise to prepare projects for finance.

A growing recognition of the importance of SMEs for the development of a strong private sector in Africa has led institutions such as the IFC to create special instruments, such as the Africa Enterprise Fund and the Mauritius Fund, to support SMEs. The APDF and AMSCO have also been established to provide technical and managerial assistance to these enterprises These programs, however, simply cannot meet the demand for assistance from this growing class of entrepreneurs in Africa.

The Enterprise Fund for Africa should help fill the gap. The Fund should make loans available at lower rates of interest, relax the foreign currency and export orientation requirements, and provide loans on more concessional terms.

The Fund should also work to expand the range of financial instruments available to small and medium sized enterprises in Africa, and should strengthen local credit institutions and merchant banks. In addition to providing equity investments and term loans, the Fund should create innovative financing mechanisms to broaden and deepen local capital markets.

As only one example, the Fund should explore schemes such as lending to individuals in the local population to enable them to participate as shareholders in business establishments, particularly in privatized enterprises. This would be an innovative means of broadening local capital markets. It also would help to build the entrepreneurial spirit among the African public and generate confidence in private sector institutions.

ENCOURAGING AFRICAN-AMERICAN JOINT VENTURES

Like the Polish and Hungarian Enterprise Funds, the Enterprise Fund for Africa should help American companies to take advantage of the growing opportunities for profitable investment in Africa by facilitating joint ventures between American and African firms. American firms have much to offer in the way of talent, technology, finance, and employment. Africans have increasingly lucrative opportunities for profit to offer in return. Smaller and medium-sized American firms would be ideally suited to take advantage of joint venture opportunities facilitated by the Fund. The Fund should concentrate on opening up additional joint venture opportunities in areas crucial to private sector expansion, such as financial services, insurance, and guarantees.

IMPORTANCE OF AGRICULTURE

Mr. Chairman,

Agriculture accounts for the bulk of employment and income in Africa. To promote broad-based, equitable development, the Fund should concentrate a considerable portion of its assistance on agriculture-based industries. Most African economies remain reliant on the export of primary commodities. Economic diversification is essential for Africa to reduce its vulnerability to the vagaries of weather and adverse international economic conditions.

The Fund should therefore concentrate on downstream agriculture-based industries that add value to Africa's primary products and generate business in secondary industries. The development of a robust manufacturing sector must be actively encouraged in Fund programs.

A CONTINENT WIDE SCOPE; A COUNTRY-SPECIFIC APPROACH

Mr. Chairman,

I have discussed Africa's vastness and its diversity. This has important implications for the functioning of the proposed Fund. We believe that the Fund should be ***continent-wide***, rather than regional, in scope, in that any African country that meets the criteria spelled out below would be eligible for assistance.

However, while the scope of the Fund should be continent-wide, the approach of the fund must be *country specific* if it is to be effective. Programs must be designed taking into account all the factors which comprise the investment climate in a given country, which, as we have seen, may differ significantly from that in another African nation. A decentralized, field-oriented, country by country approach is in our view the only viable and cost-effective one.

We believe that those African countries that are seriously pursuing economic reforms and taking concrete steps to promote domestic and private investment should be given priority for assistance from the Fund. Assistance will be most effective if it is targeted towards those countries where the conditions are right. Since we firmly believe that democracy and free markets must go hand in hand, only those African countries that are firmly embarked on the road to democracy should be eligible. Such country specific action will provide additional incentives to countries not yet fully committed to economic and political reform.

EMPOWERMENT: BUILDING CAPACITY IN THE AFRICAN PRIVATE SECTOR

The Fund will be most effective if is designed to ***build African capacity***; to ***empower*** the African private sector and African institutions.

Unlike Poland and Hungary, Africa has a multitude of indigenous institutions working to promote the private sector. The Fund should endeavor to work through, and strengthen, such institutions to the maximum extent feasible.

Institutions working to build African capacity in the private sector, such as the Private Sector Development Unit at the African Development Bank, the African Export-Import Bank, the African Centre for Privatization in Africa, as well as regional, national, and local institutions, should receive strong support from the fund. The Fund should cooperate with these agencies both in the development and implementation of projects and programs to assist the private sector. I have already addressed the need for the Fund to strengthen indigenous financial institutions.

African expertise, African consultants, and African services should be utilized and developed to the greatest extent possible in all Fund activities. Above all, private entrepreneurs themselves must be thoroughly involved in project design and implementation.

Encouraging the use of African services in joint ventures with U.S. companies in areas such as insurance, investment banking and accounting, for example, will help develop long-term human resource capacity in these crucial areas of business.

Selection criteria for projects to receive assistance from the Fund should reflect this overriding empowerment objective. The Fund should give priority to enterprises that use local resources, lead to efficient import substitution, create employment and promote transfer of management and technology.

When providing finance, the Fund should be designed to serve as a catalyst for the generation of local counterpart funds. In this regard we would urge adherence by the Fund to the following three tenets, to the maximum extent feasible: 1) that the development of local owner and operator funds be encouraged; 2) that the monies of local owners and operators be put at risk; and 3) that the principal contribution of the Fund be limited to leveraging the capital of local owners and operators. These tenets must, however, be applied with flexibility in Africa. The challenge will be to devise creative techniques to mobilize local resources, particularly among SMEs.

Finally, the Fund should be designed to ensure that loans and equity investments are made only in projects that hold out good prospects for profits and offer a satisfactory economic rate of return. Without financial viability there can be no sustained developmental benefit.

COORDINATION

Mr. Chairman, I have previously alluded to the necessity for the Fund to draw upon the plethora of established agencies working in private sector promotion in Africa. The Fund must coordinate closely with these agencies in all areas -- on project development and identification, management advisory services, co-financing, and policy formulation.

By joining efforts with these organizations, the Fund will be able to identify viable projects at minimal cost, as well as the areas where other sources of assistance are not available at reasonable terms. The Fund should play a catalytic role also in bringing together potential investors and creditors to promote viable projects.

Indeed, collaboration should begin at the drafting stage. We would urge the Congress to solicit the input of multilateral, bilateral, and African agencies when drafting the legislation for the Fund, in order to incorporate the lessons they have learned in designing and administering private sector promotion programs in Africa. This will be particularly important if the Fund is to attract additional capital for the Fund's programs from many of these agencies.

LOCATION OF HEADQUARTERS

Mr. Chairman,

We strongly recommend that the operational headquarters of the Fund be located in Africa. This will be crucial if the Fund is to meet its empowerment objectives, ensure meaningful collaboration with Africans and African institutions and design assistance programs that are responsive to rapidly changing, and widely varying, local conditions in Africa. It will be the only way to implement the decentralized, field-oriented approach that is necessary for Africa. The Fund's operational managers should include Africans who have both extensive private sector and international finance experience.

ADMINISTRATION

The Fund should be managed to the maximum extent possible as a for-profit company, and be isolated from political considerations. This will ensure that the decisions taken will be those that reinforce reliance upon the development of real market dynamics in the countries in which it operates.

Similarly, every precaution must be taken to minimize the administrative regulations and 'red tape' associated with the operations of the new fund. Too often, assistance programs mirror the bureaucratic evils that we are working so hard to eliminate in our governments, and entail administrative burdens that our nascent private sector operators can ill-afford. The Fund must be administered according to the business principles of efficiency and flexibility. Streamlined, flexible procedures, clear guidelines, and delegation of authority will be essential.

THE POLICY ENVIRONMENT

Mr. Chairman,

No amount of finance and technical support will empower the private sector in Africa if we do not simultaneously address constraints in the enabling environment for private investment. Only if that environment is favorable to private investment will assisted private sector projects succeed and pave the way for new commercial investment, both domestic and foreign.

The Fund should support credible African institutions that are working to improve the policy environment for investment. Working with these agencies, the Fund should identify where technical assistance is needed by governments that are committed to reform but face problems of implementation.

A SYMBOL OF U.S. LEADERSHIP AND COMMITMENT

Mr. Chairman,

The time for Africa's dependence on hand-outs is past. The 1990s and beyond call for partnership with the international community. Africa is doing its part -- what is required now are measures which will complement our own.

We believe that the United States, as the world's shining example of economic and democratic freedom, has an important stake in seeing the triumph of these principles in Africa.

We also believe that as positive as the initial responses from the U.S. business community have been, there remains scope for considerable expansion of trade and investment ties between the U.S. and Africa.

Mr. Chairman, the United States can lead the developed world in the formation of a new partnership with Africa. The creation of a U.S. Enterprise Fund for Africa would recognize and encourage Africa's movement toward free-market economies and democracy, and bolster the emerging forces of private initiative and free trade which are today in the ascendance in Africa.

We commend you, Mr. Chairman, and your colleagues for your leadership and your commitment to Africa. We stand ready to work with you at every stage of the Fund's development to ensure that the Fund fosters an effective, mutually beneficial partnership between the U.S. and Africa.

I thank you once again for inviting us to testify today. I would be pleased to answer any questions that you and your colleagues may have.

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ACCESS AFRICA
INTERNATIONAL, INC

TESTIMONY OF HUBERT S. SHAIYEN, PRESIDENT ACCESS AFRICA INTERNATIONAL BEFORE THE HOUSE SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT AND THE HOUSE SUBCOMMITTEE ON AFRICA

TUESDAY OCTOBER 19, 1993

Chairman Gejdenson, Chairman Johnston and distinguished members of both subcommittees, thank you for this opportunity to share Access Africa's thoughts with you on the subject of an Enterprise Fund for Africa.

First, permit me to give you some background on the organization I represent. Access Africa International, Inc. a Washington, D.C.-based, non-profit organization, evolved at the initiative of a cross-section of African and American professionals and entrepreneurs who saw the need for innovative and pragmatic solutions to Africa's economic development challenges. Our objective is to promote private sector development in Africa through private business relations between the United States and Africa. The organization's membership consists of a diverse group of accomplished professionals, many of whom were born in Africa and maintain their linkages with friends and family who, in many cases, are business leaders and decision makers at the highest levels of government and private industries. This results in a familiarity with Africa's socioeconomic landscape that has enabled the organization to be effective in its efforts

to promote a private sector agenda for Africa.

Since its inception, Access Africa has hosted a variety of activities designed to educate potential U.S. investors about investment opportunities in Africa. As part of its growing commitment to private sector development, Access Africa recently launched in Accra, Ghana, the Access Africa Enterprise Corps (AAEC) program, the objective of this program is to provide management consulting services to entrepreneurs in Africa in order to assist them to operate and expand their small and medium-sized businesses and to direct U.S. capital and expertise towards the private sector in Africa. Access Africa International seeks to expand AAEC's services to cover other African countries.

To give increased priority to environmental protection in Africa, Access Africa is in the process of establishing the Africa Green Exchange. By facilitating the exchange of university researchers between the U.S. and Africa, this program is designed to raise awareness in Africa about the importance of pursuing development in an environmentally sustainable fashion, while also sensitizing U.S. environmental professionals to the peculiarities of the African situation.

A. The Reform Process in Africa

Sub-Saharan Africa is in the midst of unprecedented change - political, economic and social. Politically, the last two years have seen a large number of countries in the region undergo transitions from military dictatorships or one-party states into multi-party, democratically-elected governments. Economically, many African countries have undertaken far-reaching structural adjustment measures aimed at macroeconomic reform. They have increasingly liberalized their economies to give the private sector a prominent

role as the engine of economic growth, and have sought to make their economies more conducive to foreign investment.

Socially, greater democratization and improved economies together imply increased individual freedoms and human rights. A more educated populace means better standards of living and greater opportunities for women and other traditionally deprived groups in Africa. A growing recognition of the importance of preserving the environment is now evident in the region, a development with important implications for the rest of the world.

No doubt, the end of the cold war has given impetus to these developments. The U.S. is well-placed to influence the direction of change in Africa, and to ensure that the substantial gains made in the region over the last decade or so are consolidated. The process of reform has by no means been smooth, and U.S. support of reform efforts in African countries is essential if their momentum is to be maintained.

One crucial area in which the U.S. can have a significant impact is in the development of Africa's private sector. After decades of state control, the governments of many African countries have begun to withdraw from their involvement in a broad range of activities. A good number of countries have developed privatization programs with varying degrees of success, and have encouraged local and foreign investors to participate in the divestment of state enterprises. Entrepreneurship has never been lacking in Africa, and a more liberal business environment has fostered the development of a broad variety of microenterprises in the largely unregulated informal sector. More formal enterprises in the region tend to be relatively small and often lack managerial

expertise and adequate capital.

B. Why should the U.S. establish a US-Africa Enterprise Fund?

1. The considerable progress made by several African countries in developing their private sectors offers the U.S. an opportunity to make an important and lasting contribution to the region's economic development. By providing financial support to private sector entities in these countries, the U.S. would be rewarding their reform efforts while also demonstrating its continuing commitment to the region, and lending credibility to their adjustment programs.

2. The establishment of an Enterprise Fund for Africa would expand U.S. International business by offering US investors the opportunity to expand their activities to cover an area hitherto largely unknown to them. Africa remains a relatively untapped market with huge returns on investment at levels unavailable in the U.S.

3. Increased US-African business relations would inevitably increase US exports to Africa, as African countries import plant and machinery to enhance production, and as individuals acquire a taste for US consumer goods.

4. A transfer of US technology and innovative processes would be effected through US joint venture investments in Africa. This would lead to improved living standards while also expanding the international market for U.S. technology.

5. An Enterprise Fund for Africa would provide much-needed foreign exchange to small and medium-scale enterprises in Africa, thus expanding their access to international sources of credit.

6. By funding small projects in Africa through financial intermediaries, the Enterprise Fund would be playing an important role in financial system reform and capital market development.

7. Through training and exposure to modern business practices, the Fund could enhance the managerial and entrepreneurial capacity of African private enterprises. The shortage of qualified managers is a major constraint to private sector development in the region, and this could be addressed through the capacity building element of the proposed facility.

8. By involving local consultants in the design, appraisal and implementation of projects, the Enterprise Fund would enhance the local consulting capacity of African countries. Technical assistance, which has been provided freely by several international aid agencies, has been of limited effectiveness in Africa. There is no substitute for the development of local consulting expertise.

9. A U.S. Africa Enterprise Fund could devote a portion of its financing to projects promoting the environmental protection objectives of the country. The Fund, by ensuring that all projects comply with environmental regulations could also promote general environmental responsibility in the African private sector while encouraging environmentally sustainable development.

10. By allocating some of its resources specifically to women entrepreneurs, the Fund would be helping to increase opportunities for African women who, in many African societies, have a long tradition of commercial activity.

11. US assistance to the African private sector would greatly enhance the impact and effectiveness of US aid there. Investing directly in the private sector would avoid the bureaucratic delays and inefficiencies that generally characterize lending to public sector entities.

12. Successful private sector development in African countries would lend credibility to their democratic reform efforts, thereby encouraging similar reforms in other countries and demonstrating the benefits of a free market system. For the momentum of democratic reform to be maintained, free enterprise must be seen to work effectively. Otherwise, countries with a tradition of socialist systems which have undergone political transition could quickly slip back into more centralized systems, thus negating the efforts of the proponents of capitalism.

13. In many countries around the world, the private sector is the largest employer of people. Private sector development in Africa would help create jobs, thus raising the standard of living of a large segment of the population. U.S. personnel practices and employment standards will inevitably be passed along to the host countries and could help to improve the working conditions of some private sector entities in the region.

C. Some Suggested Features Of The Enterprise Fund

* The Fund would be designed to cover the whole of the Sub-Saharan African Region. Sub-Saharan African countries generally share common characteristics: undeveloped capital markets, widespread poverty, limited capacities, dependence on primary commodities, limited industrial base, low capital levels, weak management, cultural similarities, etc. North African countries are generally grouped with the Middle

East and could more appropriately be addressed separately.

All countries in Sub-Saharan Africa would be eligible to benefit from the Fund, subject to a predetermined set of criteria. The funding would be made available only to the private sector and would be driven by the existence of viable projects in each country, not by country allocations. However, in the interest of equity, and also in order to hedge against country risk through diversification, limits would be placed on total exposure in any given country.

* While the definition of a small business in the U.S. is well defined, the definition of small business in the African context will require some definition. While recognizing that a large number of the businesses that will be best positioned to take advantage of the Fund's services are established concerns, we, however, do not believe that the Fund should be designed to support the expansion programs of large multinational corporations. Furthermore, we recognize that micro-enterprises represent a large proportion of the African business environment and a significant portion of the Enterprise Fund should be specifically targeted towards supporting micro-enterprise.

* Consistent with other international enterprise funds created by the U.S., the Enterprise Fund for Africa should take into account such considerations as internationally recognized worker rights, human rights, environmental factors, U.S. economic and employment effects, and the likelihood of commercial viability of the activities which are supported by the Fund. In addition, we believe that the Fund should place emphasis on the direct and indirect job creation potential of its projects. The political environment of the host country and its progress with economic reform should also be considered as

factors in determining the eligibility of various countries for access to the Fund.

* Because many African economies are at a relatively early stage of development, it is important to focus the Fund's resources on projects that enhance productivity in host countries. Projects in such areas as agriculture, and mining, infrastructure, manufacturing and finance would therefore receive greater priority than projects in such areas as wholesale and retail trading. With respect to finance, emphasis should be placed on merchant and investment banking projects that support private sector development as well as mortgage banking projects that support housing development and home ownership. Agricultural and mining projects should focus on the storage, processing and distribution of local resources. Infrastructure projects should be focused on telecommunications, energy, construction, storage and transportation. Relative to manufacturing, the fund should ensure that it supports activities that involve a reasonable percentage of local content in the manufacturing process. Also, manufacturing projects in particular should employ intermediate technologies that can be maintained over the long-term in the context of developing countries.

* Due to the significant costs of developing feasibility studies and business plans for attractive private sector ventures, many viable projects in Africa cannot be implemented. We therefore recommend that the Fund develop a feasibility grant program that would provide grants toward the development of feasibility studies and business plans. The program should be designed to provide up to fifty percent of the cost of such studies and it is recommended that approximately 10 percent of the Funds resources should be designated for this purpose.

* The Fund could benefit from the large talent pool of qualified professionals and entrepreneurs from different African countries here in the U.S. They could serve as a fundamental bridge between the U.S. business environment in which they operate and the African landscape they are familiar with. Therefore we would recommend that such individuals be considered for a seat on the Board of Directors.

In addition, due to the limited number of people who can serve on the board, Access Africa recommends an establishment of a Business Advisory Council of African Professionals in the U.S. that would serve the purpose of providing input and assessment to the Fund relative to its activities on a bi-annual basis. At least one member of the Business Advisory Council should be a member of the Board of Directors. The Business Advisory Council would also serve as a vehicle for identifying and recruiting talented African professionals for consulting assignments and, managerial and technical positions which result directly and indirectly from the activities of the Fund.

* Access Africa recommends that the Fund should make special efforts to support projects in host countries that have recently experienced large scale civil unrest and even wars on the road to democratization. Many of these countries need to embark on massive reconstruction programs in order to redevelop the infrastructure for economic development and their entrepreneurs may be initially be disadvantaged from participating in the Fund. Assistance from the Fund should therefore be targeted toward private sector sponsored projects that assist in the redevelopment of private sector activities in such countries.

* In as much as the Enterprise Fund for Africa is a private non-profit corporation, Access Africa recommends that its enabling legislation provide it with direct access to executive branch agencies in order for the Fund to obtain direct services and support for its activities. Specific emphasis should be placed on the relationships with the Department of Commerce, Overseas Private Investment Corporation (OPIC), Trade Development Agency (TDA) and the U.S. Agency for International Development (USAID).

* In arriving at a suggested funding level of $400 million for the Enterprise Fund, to be provided by the U.S. government, with an additional amount to be solicited from the U.S. private sector, we have taken into consideration the current state of economic development in SubSaharan Africa, its large population (over 400 million), and the number of countries which will be potentially served. This is particularly important since the investment of resources must be provided at a level that will ensure a productive return on investment while also making a significant impact within the region.

* Integrating environmental considerations with economic policy is considered a priority by Access Africa. The proposed Enterprise Fund through its projects should seek to address the need for an environmental protection strategy that balances sustainable economic growth with appropriate environmental management. The environmental impact of all project and program applications should therefore be a specific consideration in the provision of funding.

D. How should a U.S. Africa Enterprise Fund (USAEF) be structured?

Objective

The USAEF would be established with the objective of contributing to private sector development in Africa through inter alia:

(i) direct equity investments in African private sector entities;

(ii) direct loans to African private sector entities;

(iii) equity investments and loans to small and medium-scale enterprises and microenterprises in Africa through African-based financial intermediaries (i.e. commercial banks, merchant banks, investment banks, venture capital companies, mortgage banks, development banks, etc.);

(iv) joint venture investment arrangements between U.S. investors and African private sector entities;

(v) portfolio investments in African stock markets;

(vi) development of African capital markets;

(vii) development of local consulting capacity;

(viii) provision of consulting, training, technical assistance and capacity building services;

(ix) investment promotion assistance; and

(x) mobilizing additional capital through leveraging activities.

<u>**Structure**</u>

The structure of the proposed USAEF would be as illustrated in the attached diagram:

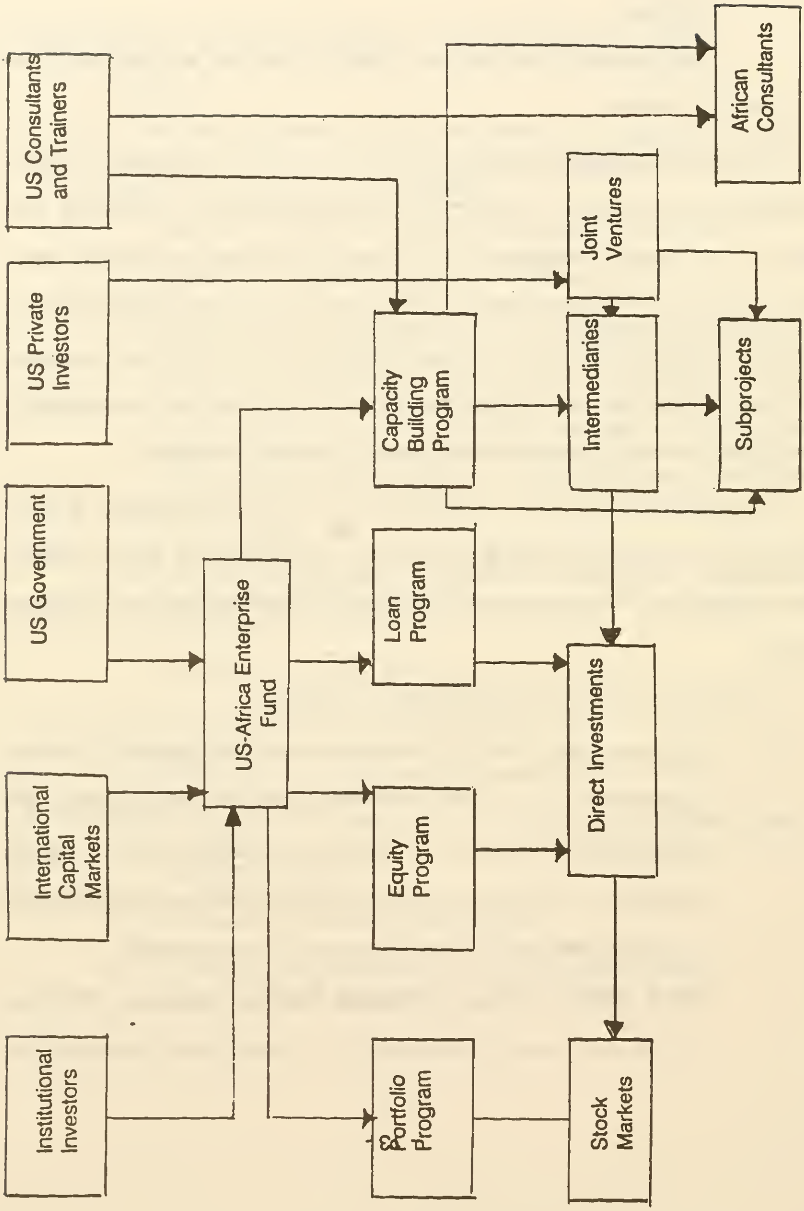
<u>**The US Africa Enterprise Fund**</u> would be a private, tax-exempt corporation established by an Act of U.S. Congress, with an independent Board of Directors. The Enterprise Fund would be established with a mandate to pursue the objectives stated earlier. The Fund would be managed by proven experts in the private sectors of the U.S. and Africa. The Board of Directors would also consist of both US and African members. The inclusion of Africans in the management of the Fund is crucial if its objectives are to be met, because of their familiarity with the African business environment.

The Enterprise Fund would be headquartered in the United States, given its proximity to the international capital markets and the existence of modern facilities, communications, etc. If and when considered expedient, the Fund may open field offices in Africa.

The Enterprise Fund would obtain funding as follows:

(a) <u>U.S. Government:</u> The U.S. Government would make available to the Fund a grant in the amount of $400 million for a three-year program period. The Enterprise Fund would be authorized to hold funds in interest- bearing accounts and a variety of conservative financial instruments, and to retain for program purposes any interest earned on such deposits.

(b) <u>Capital Markets, Institutional Investors, Pension Funds, etc:</u> The Fund would be authorized to obtain funds from U.S. institutional investors and the


US Consultants and Trainers
US Private Investors
US Government
International Capital Markets
Institutional Investors
US-Africa Enterprise Fund
Capacity Building Program
Loan Program
Equity Program
Portfolio Program
Joint Ventures
Intermediaries
Subprojects
Direct Investments
Stock Markets
African Consultants

international capital markets for the purpose of investing in portfolio program and the Equity Program.

(c) U.S. Private Investors: Private investors based in the U.S. would be encouraged to enter into joint venture agreements with African private sector entities.

(d) U.S. Consultants and Trainers: US consulting firms and trainers would provide assistance through the Capacity Building Program in the delivery of consulting and training services to African financial intermediaries and other private sector entities in Africa. Furthermore they would help develop local consulting capacity in the region.

The Enterprise Fund would operate its activities through four main programs: portfolio; equity; loan; and capacity building;

The Portfolio Program would be established to provide a specialized investment vehicle designed to invest in a diversified portfolio of securities, primarily in the listed equity securities of African companies. It would largely rely on funds provided by institutional investors. Its primary objective would be to achieve long-term capital appreciation principally through investments in the listed equity securities of African companies. A portion of the program's assets may be invested in equity and quasi-equity securities of unlisted companies. Given limited access in many African countries, the Program would initially focus on investment opportunities in countries with more developed capital markets such as Zimbabwe, Nigeria, Kenya, Botswana, Ghana, Mauritius, and Côte d'Ivoire. As the Enterprise Fund's support of capital market

development efforts in the other countries begins to bear fruit, the Portfolio Fund will expand its investments.

The Portfolio Program is expected to play an important role in the development of the African Securities markets. The benefits for African economies are expected to be substantial. If successful, the Program would encourage additional flows of foreign portfolio investment to Africa. This would in turn contribute to the increased liquidity and efficiency of the African securities markets and make it easier for local firms to raise capital to finance new projects. Furthermore, through its professional approach to securities analysis and its long-term perspective, the Program would contribute to the introduction of modern portfolio management techniques and approaches to investment.

The Program would be capitalized at $100 million, to be obtained from institutional investors, pension funds, and large U.S. based companies. It would be managed by a reputable U.S.-based investment management firm to be selected based on its expertise in managing similar funds, and its experience in Africa.

<u>The Equity Program</u> would be established to make direct equity investments in viable projects proposed by African entrepreneurs or in African financial institutions, such as venture capital funds, acting as intermediaries by onlending funds to small and microenterprises. The Equity Program would invest in projects which satisfy a predetermined set of criteria, and would seek to attract joint venture participation by US investors. The Program could act in cooperation with the Loan Program described below, and with similar US and international facilities already in place, such as the Africa Project Development Facility (an IFC-UNDP-ADB funded small and medium-sized

business initiative which helps African entrepreneurs develop business ideas into viable projects) and the Africa Enterprise Fund (an IFC initiative which funds small and medium-sized enterprise in Africa).

The Equity Program would be capitalized at $100 million, to be raised from institutional investors and the international financial markets. The Program would provide much-needed equity financing to African private sectors thus encouraging the creation and expansion of small and medium-sized enterprises in the region. It would have its own Board of Directors and management.

The Loan Program would provide loans to fund private sector investments in Africa, both directly and through financial intermediaries such as commercial banks, mortgage banks, merchant banks, etc. The Fund would operate in concert with the Equity Program and other similar institutions providing private sector funding for Africa, such as those mentioned earlier. The Loan Program would be funded by a US government grant allocation of $400 million to the US-Africa Enterprise Fund which would onlend such funds at a reasonable rate of interest for direct investments in Africa or for investments in African intermediaries which would in turn onlend to the final beneficiaries, i.e. small and micro-enterprises.

When funds are disbursed through financial intermediaries, such intermediaries would bear the credit risk and be responsible for appraising and supervising the implementation of sub-projects. They would also bear the foreign exchange risk and interest rate risk resulting from their exposure. The Loan Program would ensure that hedging mechanisms are adopted by the financial intermediaries to mitigate these risks.

The Capacity Building Fund would address the capacity limitations of the private sector in Africa in the areas of managerial and entrepreneurial training, and would provide consulting assistance to local private enterprises, financial intermediaries and African consultants, with a view to enhancing local consulting capacity. In summary the Capacity Building Program would cover the following:

(i) Training programs for managers and entrepreneurs in accounting, marketing, finance and management to be provided in Africa and in the U.S.

(ii) Consulting services would be provided by seconding experienced US personnel - perhaps young MBAs and accountants - to African enterprises. As much as possible the Fund would work through existing facilities such as the Access Africa Enterprise Corps.

(iii) Local African consulting firms would be enhanced through training and by ensuring their participation in the appraisai, implementation and supervision of all projects.

(iv) A program would be established to encourage the return of qualified Africans in the United States by offering them challenging assignments in their home countries.

(v) A scholarship program would be created to educate promising African students, professionals, and entrepreneurs in the U.S. in accounting, finance, marketing and business management.

(vi) Technical assistance could be provided, if requested, to African governments interested in promoting foreign investment in their countries.

(vii) Technical assistance could be provided to assist governments in developing their stock markets and increasing foreign access to them.

(viii) Consulting support could be provided in the area of capital market development, particularly in the creation of financial institutions for channeling funds to microenterprises.

About 15% of the Enterprise Fund's resources would be allocated to the Capacity Building Program.

Access Africa believes that the main principles that would guide the establishment and operation of the US-African Enterprise Fund are simplicity, efficiency and effectiveness. Bureaucratic procedures would be avoided to the extent possible, with an emphasis being placed more on function and effectiveness than on form and presentation. While developing our views on an African Enterprise Fund, we reviewed the Hungarian-American Enterprise Fund, established in 1989 and the Polish-American Enterprise Fund, established in 1990. It is our view that the proposed Fund be designed to suit the specific circumstances of the African business environment. A great deal of flexibility would need to be built into the Fund's operations to account for considerable differences among countries in the level of development of financial systems, capital markets, and indeed private sectors. Unlike the Polish-American Enterprise Fund, the USAEF would make maximum use of intermediaries where they exist and are capable of delivering the required service. Where such institutions are weak, they can be strengthened through investment support and capacity building. Unlike both Eastern European Funds, the regional nature of the USAEF will ensure that investments are

broadly diversified among countries and make them less susceptible to changes in individual country circumstances.

The Hungarian American Enterprise Fund, for instance, only recently began to focus on developing partnerships with financial institutions in its third year of operations. This, we suspect, was probably driven by the need to raise private sector capital in order to continue the Fund's operations. Since it is Access Africa's desire and hope that the Enterprise Fund for Africa will operate over the long term, we recommend that the non-profit organization should be required to select an established investment banking or venture capital management firm as its technical partner from the outset of this program. The selected firm should have demonstrated experience in the international venture capital market with preference for firms that have current activities in Africa. More importantly, however, the firm should also be capable of raising private sector capital in support of the Fund's objectives. The issue of leveraging the initial appropriations that establish the Fund with private sector capital is a very important one. Furthermore the Fund should draw on the thirty years of experience of the U.S. Small Business Investment Company (SBIC) program whereby the capital of SBIC's are leveraged by the U.S. government.

All projects benefitting from the Fund would be expected to meet a set of criteria that would require the project to be viable, to have a developmental impact, and to satisfy the requisite environmental and labor regulations. Country eligibility can also be made subject to certain conditions, such as progress towards democratic reform, progress with economic reform, and environmental sensitivity.

It is expected that the Fund would begin to make equity investments and loans immediately and its impact would be felt in the short to medium term. The Fund should be required to develop a strategic plan for encouraging joint ventures between U.S. businesses and African entrepreneurs. This is particularly important since the liberalization of African economies now allow for 100% foreign investment in many sectors of the economy, and joint-venture companies could take advantage of viable privatization opportunities which are beginning to emerge.

In conclusion, it should be emphasized that promoting private sector development in Africa is not just an ideological necessity, it is sound U.S. policy with mutual benefits for both the US and Africa. A growing African private sector providing a more diverse array of products and services is a more formidable force for development. For African governments who have gradually recognized the limits of public sector intervention, an enhanced role for the private sector is welcome relief. And the harsh rhetoric once heard in Africa against foreign investment is being replaced by a determined competition for the capital, technology and employment which the U.S. can bring to the region.

Attitudes and policies are changing rapidly in Africa. There is a growing recognition that given the proper support, the enterprising energies of Africa's people have enormous potential. The U.S. government, potential U.S. investors, African governments, and African entrepreneurs themselves now have an opportunity to engage a powerful engine to help drive Africa's development forward. It is an opportunity which no one can afford to ignore.

Investing now in the ongoing efforts of emerging democracies in Africa to restructure their economics will pay dividends down the road. An Africa fully integrated into the international economy will be an important source for raw materials and manufactured products, as well as a significant market for American goods and services.

Access Africa is grateful for this opportunity to provide an input into these important deliberations of the Subcommittee on Trade, Economic Policy and Environment as well as the Subcommittee on Africa. We would welcome an opportunity for further discussions with committee members or their staff.

Safari Club International

STATEMENT OF SAFARI CLUB INTERNATIONAL
ON U.S. IMPACTS ON WILDLIFE CONSERVATION IN AFRICA
November 9, 1993

Safari Club International (SCI), a worldwide organization of hunter-conservationists, has been involved in wildlife conservation in Africa for more than 20 years. SCI has made direct grants for uniforms, field equipment, computers and much of the other hardware of wildlife management. But perhaps more importantly, SCI has been a continuous source of what is known in Africa as "tourist sport hunting."

Tourist sport hunting is a way for Africans to utilize African wildlife resources, on a continuing, sustainable basis. While it is by no means the only way to utilize resources, it brings a high return for a minimal investment in infrastructure, has virtually a zero biological impact on the wildlife populations, and is easy to regulate. In comparison to other forms of wildlife-related tourism, the impact of sport hunters on the environment is minimal. The one requirement of tourist sport hunting is that the hunter desires to return home with his hunting trophy. This makes tourist sport hunting vulnerable to regulations in the importing country that prohibit or unduly interfere with the hunter' ability to import his trophy.

The imposition of import bans that interfere with the management of wildlife in the country of origin has been recognized as a problem by the parties to the Convention on International Trade in Endangered Species (CITES). In 1987, the CITES parties adopted a resolution (Conf. 6.7) that called upon countries to consult with the countries of origin prior to setting import bans. The preamble to that resolution makes two important points:

> "... international cooperation is fundamental to achieving the objectives of the Convention."
>
> "[there is a] concern of some Parties that stricter domestic measures [import bans] may have an adverse impact on the conservation status of the species concerned in their countries of origin."

It was recognized by the parties that such bans were often the result of political pressures within the importing country, and were therefore not consistent with sound wildlife conservation practices. In 1992, the parties adopted a similar resolution (Conf. 8.21) calling for consultations prior to proposals to list species as protected under CITES, where the listing might impact the utilization of the species by the country of origin.

This had not been a problem with the United States, until the U.S. Fish and Wildlife Service (FWS) began to adopt standards for wildlife importation that were not based on thorough knowledge, were impractical and prohibitively expensive to comply with, and were set in place without consultation with the wildlife managers in the countries where the wildlife occurs

The most serious example of this is the recent imposition of secret, internal "guidelines" by the U S denying the importation of African elephant hunting trophies for which export permits had been issued by the African countries of origin. Under pressure from an SCI lawsuit, the U.S has issued import permits for trophies from some countries, and has published these guidelines as proposed rules. The comments from African governments and from wildlife conservation experts overwhelmingly oppose the guidelines:

> In adopting an approach and a proposed set of guidelines that are exceedingly restrictive the USFWS would appear to have exceeded the intentions ... of Article 3.3(a) [of the CITES treaty] ...". [M.A. Ndolanga, Director of Wildlife, Ministry of Tourism, Natural Resources and Environment, Tanzania]

> This type of approach could be seen as being offensive to developing countries and, in our opinion, it goes beyond the intentions of CITES ... Our interpretation of Art. III is that in almost all cases, a non-detrimental finding by the exporting country should be sufficient ground for the importing country to reach a similar ... finding, in the spirit of CITES, i.e. trust and respect for fellow Party sovereignty and integrity ... [H. Rumpf, Permanent Secretary, Ministry of Wildlife, Conservation and Tourism, Namibia]

> The communities [of Zimbabwe] consider that the proposed guidelines ... have the potential to destroy their income base and ask if it is appropriate for the wealthiest of developed nations to take action which can affect rural African communities this way?" [T N Maveneke, Chief Executive, CAMPFIRE Program, Zimbabwe, in a petition from 3002 villagers to the President of the U.S]

> This [the requirement for the U S to show "enhancement of survival"] would seem to contradict CITES Article III, 2(a), which states that the non-detriment findings regarding export are the sole responsibility of the **exporting** country " [African Wildlife Foundation]

SCI has prepared amendments to the Endangered Species Act that would require FWS to consult in a meaningful way with countries of origin prior to developing standards or bans which may interfere with wildlife management in those countries. We recognize that the FWS is subject to budget restraints as well as to political pressures from groups that oppose any kind of wildlife utilization However, those are the best reasons to require such consultations

AMENDING THE ESA TO STOP ECO-IMPERIALISM

Briefing Paper to accompany H.R. **
September, 1993**

WHAT WILL H.R. **** DO?

H.R. **** offers four amendments dealing with the role of sportsmen in conservation and way the U.S. carries out listings and permit actions under the Endangered Species Act (ESA) for species that occur outside the United States.

H.R. **** would:

* add a statement to the findings and purposes section of the ESA to recognize the contribution of sportsmen and women to conservation
* modify the definition of conservation in the ESA to allow the government more flexibility in utilizing controlled and limited hunts to manage a species
* require the U.S. to consult fully and adequately with other countries when the species being considered for listing occurs in those countries
*require that the U.S. stay within the terms of the CITES treaty when issuing permits that affect the conservation programs of other countries

WHAT IS ECO-IMPERIALISM?

The last two amendments deal with "eco-imperialism." Eco-imperialism is a recently-coined phrase which describes a policy or practice in which one counrty forces its will on another country in regard to the management of natural resources. We have seen eco-imperialism exercised by the U.S. recently on African elephant management and the conservation of argali mountain sheep in Asia.

POLITICS, NOT SCIENCE

Eco-imperialism is bad foreign policy, becuase it uses market forces to make another country do things our way, whether they want to or not. The usual reasons for eco-imperialism are political, not scientific. Decisions made this way normally have no sound scientific basis, and often have results that are bad for the conservation of the species they are supposed to be helping.

THE INTERNATIONAL COMMUNITY HAS OBJECTED

The 116 countries which belong to the Convention on International Trade in Endangered Species (CITES) have adopted two resolutions over the last few years calling for an end to such practices. They have insisted on better and more meaningful consultation between the countries that have the wildlife and those countries that can impact the conservation of that wildlife.

The country with the wildlife (the range country) has the best information about the animals. It is also the only country in a position to take effective action to save the animals and their habitat. In most cases, these are third world countries with quickly-growing human populations and little cash to spread around for "nice" activities like wildlife conservation. Their primary concerns are feeding and caring for their people. If there is value given to the wildlife, through commercial markets or sport hunting programs, then there is an effective incentive to conserve the wildlife.

The country forcing its will on the range country has neither the expertise, the money, the responsibility nor the capability to do anything to effectively conserve the species in question. The only thing it can do is to shut its doors to imports of the species.

VALUE-BASED CONSERVATION WORKS!

Wildlife managers in the third world have documented the importance and effectiveness of economic incentives for wildlife conservation. The CITES parties have recognized the benefits of trade in wildlife in creating incentives for conservation. The International Union for the Conservation of Nature (IUCN), the oldest and largest conservation organization in the world, has also recognized the benefits of sustainable use of wildlife as an incentive for conservation. Yet despite this, the U.S. continues to make ESA decisions based on the politics of eco-imperialism.

H.R. **** IS GOOD CONSERVATION

H.R. **** will put the flexibility back into the ESA that it was originally meant to have. It will stop "eco-imperialism" by requiring the U.S. to consult and work in partnership with other countries when making decisions about their wildlife, instead of forcing them to do what U.S. eco-politics demands.

DRAFT AMENDMENTS TO THE ENDANGERED SPECIES ACT

[new language is underlined; deleted language is shaded]

1. Amend the findings statement in 16 U.S.C. 1531(a) by adding a new subparagraph reading as follows:

> (6) Sportsmen and women have been among the foremost contributors of support, time, effort and funds to conserve all wildlife, inclduing endangered and threatened species.

2. Amend the definition of "conservation" in 16 U.S.C. 1532(3), by striking out certain portions, as indicated below:

> (3) The terms "conserve", conserving", and "conservation" mean to use and the use of all methods and procedures which are necessary to bring any endangered species or threatened species to the point at which the measures provided pursuant to this chapter are no longer necessary. Such methods and procedures include, but are not limited to, all activities associated with scientific resources management such as research, census, law enforcement, habitat acquisition and maintenance, propagation, live trapping and transplation, and ~~in the extraordinary case where population pressures within a given ecosystem cannot be otherwise relieved, may include~~ regulated taking.

3. Amend the listing provisions in 16 U.S.C. 1533 to require meaningful consultations when the species involved occurs exclusively or primarily outside the boundaries of the the United States by amending subsection (b)(5)(B) as follows:

> (B) (i) ~~insofar as practical, and~~ in ~~cooperation~~ coordination with the Secretary of State, give notice of the proposed regulations to each foreign nation in which the species is believed to occur or whose citizens harvest the species on the high seas, and invite the comment of such nation thereon; such notice must include the complete test of the proposed regulations along with suitable explanatory material, must be prepared in the language of the nation to which it is being delivered, and must be delivered to the competent wildlife authorities of that nation, as well as to the external representatives of that nation;
> (ii) in the case of a species which occurs entirely outside the boundaries of the United State, or which occurs primarily within the boundaries of one or more other nations, the Secretary may not issue a final regulation in regard to that species without the concurrence of a majority of the nations within the boundaries of which the species occurs unless the Secretary obtains clear and compelling evidence of a serious threat to the survival of the species, and publishes a summary of such evidence along with an explanation of his reasons for proceeding with the final regulation; the objections of the nations in question may go to protective regulations proposed pursuant to subsection (d) of this section, as well as to the listing of the species under this subsection.

4. Amend 16 U.S.C. 1537a to clarify the findings to be made by the United States Scientific

Authority in regard to the issuance of permits under the Convention by adding the following provision to subsection (c):

> (3) In making determinations as to the issuance of import permits under Article IV of the Convention, the Secretary shall, in the case of importation of a specimen, accept the finding of the exporting nation as evidence by the issuance of an export pemrit by that nation as to the issue of lack of detriment to the survival of the species; in no case shall the Secretary impose a standard for the issuance of import permits beyond that specifically authorized in the text of the Convention.

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